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Beef Marketing Task Force Report

October 1988

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September 29, 1988

The Honourable Jack Riddell
Minister of Agriculture and Food

Sir,

On behalf of the Ontario Beef Marketing Task Force, I take pleasure in presenting you with the Task Force report on the beef industry in the Province of Ontario.

I would like to express my appreciation of the dedication and cooperation demonstrated by the Task Force members and secretary in carrying out this study.

The members and secretary of the Task Force are as follows:

Kenneth McDermid, Chairman

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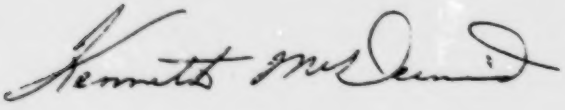
Gervan Fearon, Secretary

The members and secretary of the Task Force were honoured to make this contribution to the betterment of the Ontario beef industry.

Sincerely,



Kenneth McDermid
Chairman
Ontario Beef Marketing Task Force

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INTRODUCTION

The beef industry in Ontario represents an important component of the provincial agricultural sector. In 1987, total farm cash receipts generated from cattle and calf sales were $1.07 billion, making it the largest farm sector of the agriculture industry in the province. These sales represented approximately 20 percent of the total cash receipts generated by agricultural sales in the province. In addition, the Ontario beef-cattle industry provides a base for the meat packing, processing, and retail industry in the province.

In 1985, the Ontario meat packing industry employed 11,582 individuals at 190 operating establishments (e.g. federally inspected plants) and generated $547 million in value-added economic activity. There are approximately 2,000 employees at 280 provincially inspected plants in the province.

Over the past 25 years, the Ontario beef industry has undergone numerous changes. In 1971, the total number of farms registering cattle, including dairy, was 64,295. By 1986, the number of these farms had dropped to 39,647. Paralleling this decline in farm numbers, the number of cattle and calves registered on farms in Ontario has also declined. In 1988, total cattle reported were 2.4 million head as compared with 3 million head in 1971. The cattle number for 1988 was the lowest level in 90 years[1].

This decline can be linked to increased productivity in the dairy industry, the production of heavier cattle, the economics in the beef sector and other structural changes occurring throughout agriculture. However, cattle numbers for January 1, 1988 have suggested that the breeding herd in the province is expanding, as beef cows and beef heifer numbers were up marginally over 1987 levels.

---

[1] Cattle inventory levels here are based on June and July year-over-year comparisons. In July 1986, Alberta reached a 15 year low and Saskatchewan reached a 26 year low.

The decline in cattle numbers and the number of farms in the Ontario beef industry have been attributed to several factors. These factors have included: economics of the beef and other agricultural sectors, lower beef consumption; increased opportunities in alternative agricultural enterprises; strong economic growth in the non-agricultural sectors; greater competition from other beef-producing regions in Canada and around the world; and productivity gains.

The Ontario beef cattle marketing system includes these components: live auction (sales), electronic auction, rail grade auction, direct sales, and satellite sales. Fluctuations in the returns to producers have been attributed to changes in supply and demand conditions underlying the domestic and world beef industry as well as the selling methods and marketing system of the industry. Concern about the issues surrounding cattle marketing in Ontario has undergone several cycles. Heightened rise in interest in these issues has generally paralleled periods of low returns to beef production and, implicitly, the belief that the Ontario beef cattle selling methods and marketing system have failed to provide adequate returns.

In February 1988, Ontario Minister of Agriculture and Food, Jack Riddell, established a beef industry task force to review the issues of marketing in the Ontario beef industry. The purpose of this study was to develop recommendations aimed at remedying the marketing issues facing the industry and to provide a strategy for overcoming industry obstacles.

The task force comprised individuals representing a wide range of organizations associated with the Ontario beef industry. The organizations and groups represented on the task force include: Ontario Cattlemen's Association, Ontario Beef Producers for Change Inc., Canadian Meat Council, Ontario Independent Meat Packers and Processors Association, Ontario Stock Yards Board, Livestock Community Sale Operators, Northern Stocker Feeder Cattle Sales Association, custom feedlot operator, livestock country dealer, and the Ministry of Agriculture and Food.

The objective of the Ontario Beef Marketing Task Force in reviewing beef marketing in the province was to develop recommendations aimed at achieving a long-term viable beef industry. To develop these recommendations, the task force reviewed the issues facing the industry. This process was supplemented by the invitation of written submissions. The services of a number of experts were also used to assist in this comprehensive review. The findings and recommendations embodied in this report were developed through this process.

TERMS OF REFERENCE

The task force was given the freedom to develop its own terms of reference within the broad mandate of identifying and investigating the issues of marketing in the Ontario beef industry. The terms of reference developed by the task force are set out below.

Mandate

To assess the changing market needs and to investigate all marketing options with the objective of developing a plan of action aimed at achieving a long-term, viable beef industry in Ontario.

The Ontario Beef Marketing Task Force addressed the following issues:

a) The adequacy of the existing market structure in transmitting relevant information back to producers.

b) The efficiency of the existing market system(s).

c) The impact of various marketing systems on the long-term viability of the Ontario beef industry.

d) The competitive position of the Ontario beef industry.

e) The long-term viability of the Ontario beef industry.

f) The sources and options available for acquiring feeder and slaughter cattle for the Ontario beef industry.

g) Alternative methods of providing education and information to all sectors of the beef industry from consumers to producers.

h) The impact of government intervention on the competitive position of the Ontario beef industry.

i) The impact of exchange rates, interest rates and other external factors.

j) The impact of the meat import laws, health regulations and product standards.

k) The impact of the world grain situation on the Ontario beef industry.

l) The impact of the transportation system on the Ontario beef industry.

OVERVIEW OF THE ONTARIO BEEF INDUSTRY

Beef cattle marketing in Ontario is an integral part of the overall beef industry in the province. An overview of the Ontario beef industry is provided as a framework for understanding the issues facing beef-cattle marketing.

Consumption Patterns

The consumption patterns of beef in Canada have paralleled those of North America. Between 1972 and 1976, beef consumption increased approximately 8 kg per capita (or 17.64 lbs. per capita) within Canada, rising from 42.86 kg per capita (or 94.5 lbs. per capita) to a high of 51.46 kg per capita (or 113.5 lbs. per capita) at the end of the period. After reaching its peak in 1976, beef consumption has experienced a steady decline.

In 1987, beef consumption was estimated at 38.15 kg per capita (or 84.11 lbs. per capita), a drop of more than 13 kg (or 29 lbs.) between 1976 and 1987[2]. Canadian poultry consumption in 1986 reached 26.21 kg per capita (or 57.78 lbs per capita), rising to 27.65 kg per capita (or 60.96 lbs per capita) a year later.

Over the last 27 years, beef consumption has increased as revealed by the comparison of the 1960 level of 31.66 kg per capita (or 69.8 lbs. per capita) to 1987 consumption levels. Consumption patterns in the U.S. have been similar to the developments in Canada. In 1979, U.S. beef consumption was 47.9 kg per capita (or 105.5 lbs. per capita) as compared with 34.7 kg per capita (or 76.5 lbs. per capita) in 1987. Over the same period, U.S. poultry consumption rose from 27.4 kg per capita (or 60.5 lbs. per capita) to 35.4 kg per capita (or 78.1 lbs. per capita).

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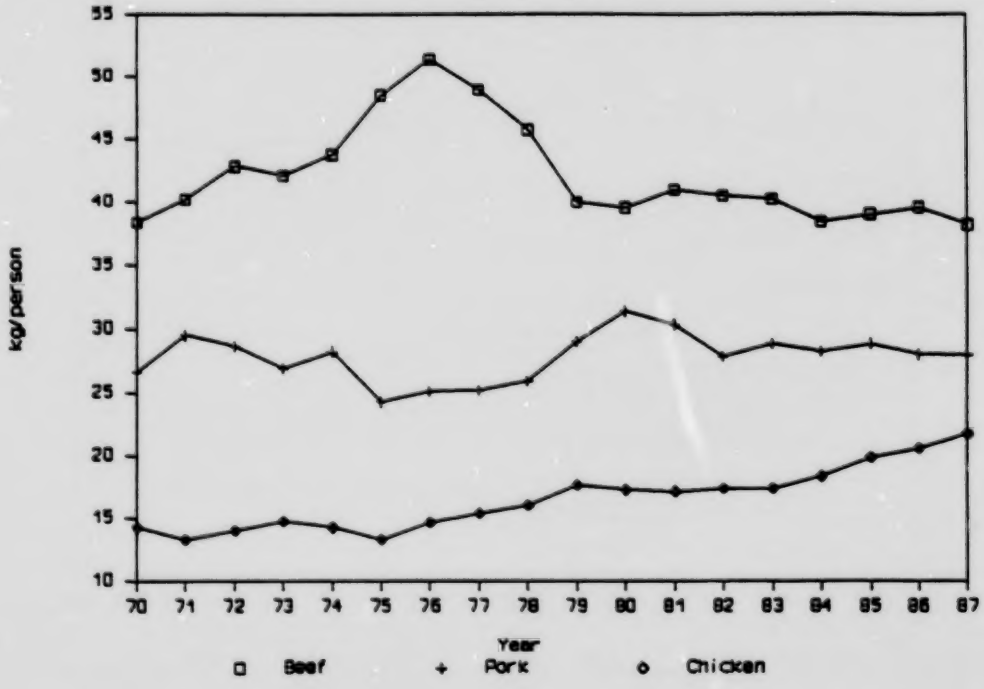
[2] Per capita disappearance is used here as a proxy for consumption patterns.

Figure 1:--Per Capita Consumption of Beef, Pork and Chicken, 1970-1987

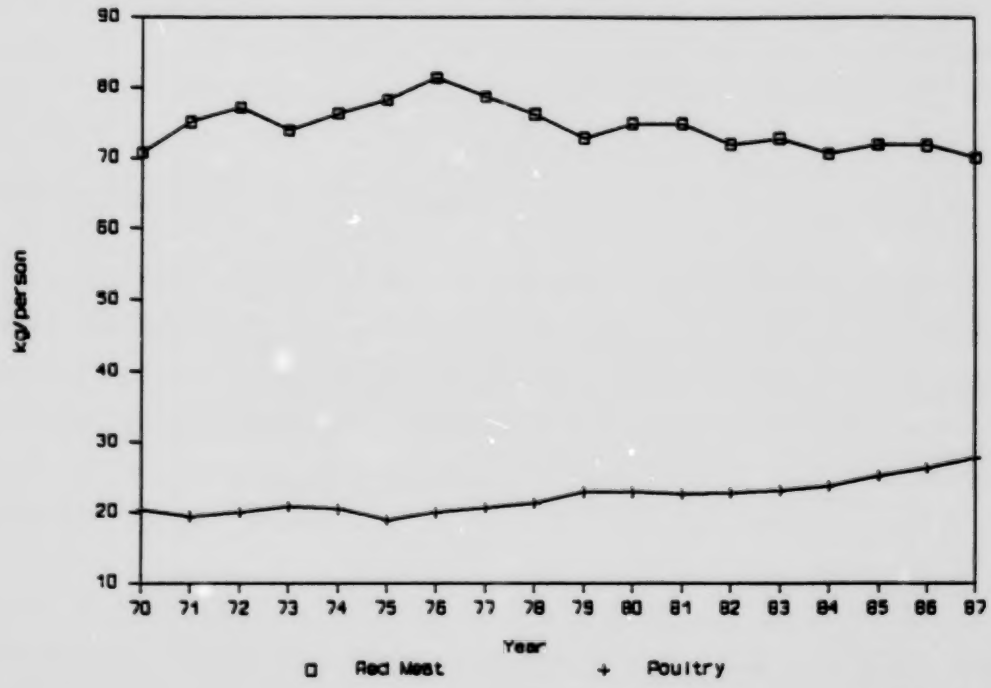


Source: Statistics Canada, Catalogue Nos. 32-229 and 23-202
Agricultural Statistics for Ontario.

The relatively recent decline in beef consumption within Canada has been linked to several factors. These factors include: competing meat and poultry products; declining consumers' expenditures on meat; demographics; female participation rates in the work force; and health concerns.

Between 1971 and 1978, the rate of increase in the retail price of beef throughout Canada was relatively slower than the rate of increase in pork and poultry prices. Although beef prices in 1979 and 1980 increased faster than those of pork and poultry prices, since 1981, beef prices have increased at a slower pace than meat prices or pork and poultry prices overall. As a result, the decline in beef

Figure 2:--Per Capita Consumption of Red Meat and Poultry, 1970-1987

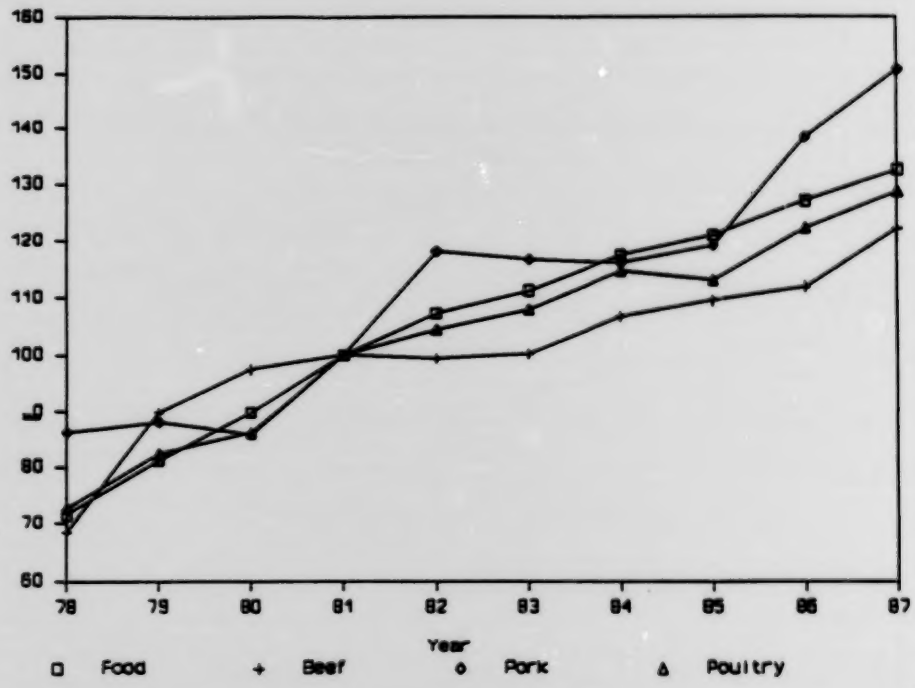


Source: Statistics Canada, Catalogue Nos. 32-229 and 23-202
Agricultural Statistics for Ontario.

consumption over the past number of years must be attributable to factors other than simply changes in the level of retail prices.

In real terms (1981 dollars), the change in consumer expenditures on meat has declined from $272.73 in 1974 to $203.02 in 1984, representing a 25 percent drop. In 1970, the share of the consumer dollar going toward food and non-alcoholic beverage was 19.6 percent of total per capita expenditures on goods and services of $2,611. In 1985, however, these expenditures represented 16.7 percent of the total $10,831 per capita expenditures. Over the same period, consumer expenditures on food and non-alcoholic beverages, in real terms, declined from $1,093.55 to $1,073.08, representing a two percent decline.

Figure 3:--CPI for Canada, 1978-1987

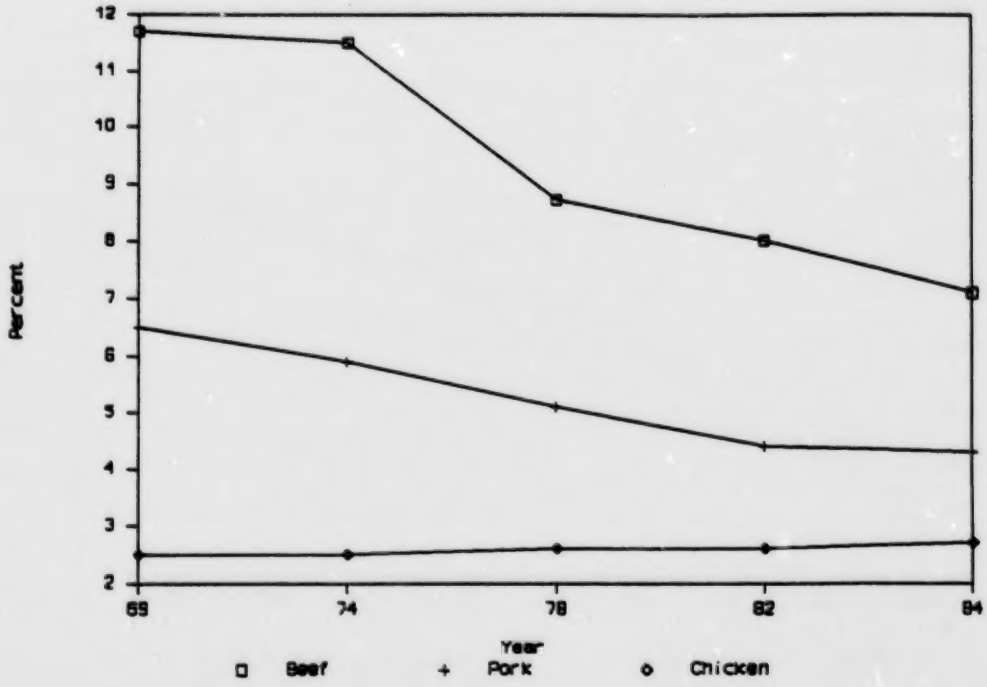


Source: Statistics Canada, Catalogue Nos. 62-010 and 62-001
Agricultural Statistics for Ontario.

The decline in total expenditures toward food has been particularly significant for beef consumption. Beef has generally been viewed as a high-quality, high-value product. For instance, in 1969, approximately 11.8 percent of the total expenditures on food and non-alcoholic beverages went toward beef purchases. By 1984, these purchases had declined to 7.8 percent of total expenditures on food. Expenditures towards beef have declined at a faster rate than the slide in total expenditures on food and non-alcoholic beverages.

In comparison, expenditures on poultry have remained relatively stable and have increased in real terms (1981 dollars) over the same period. In 1969, the level of

Figure 4:--Food Expenditure Shares for Beef, Pork and Chicken 1969, 1974, 1978, 1982 and 1984



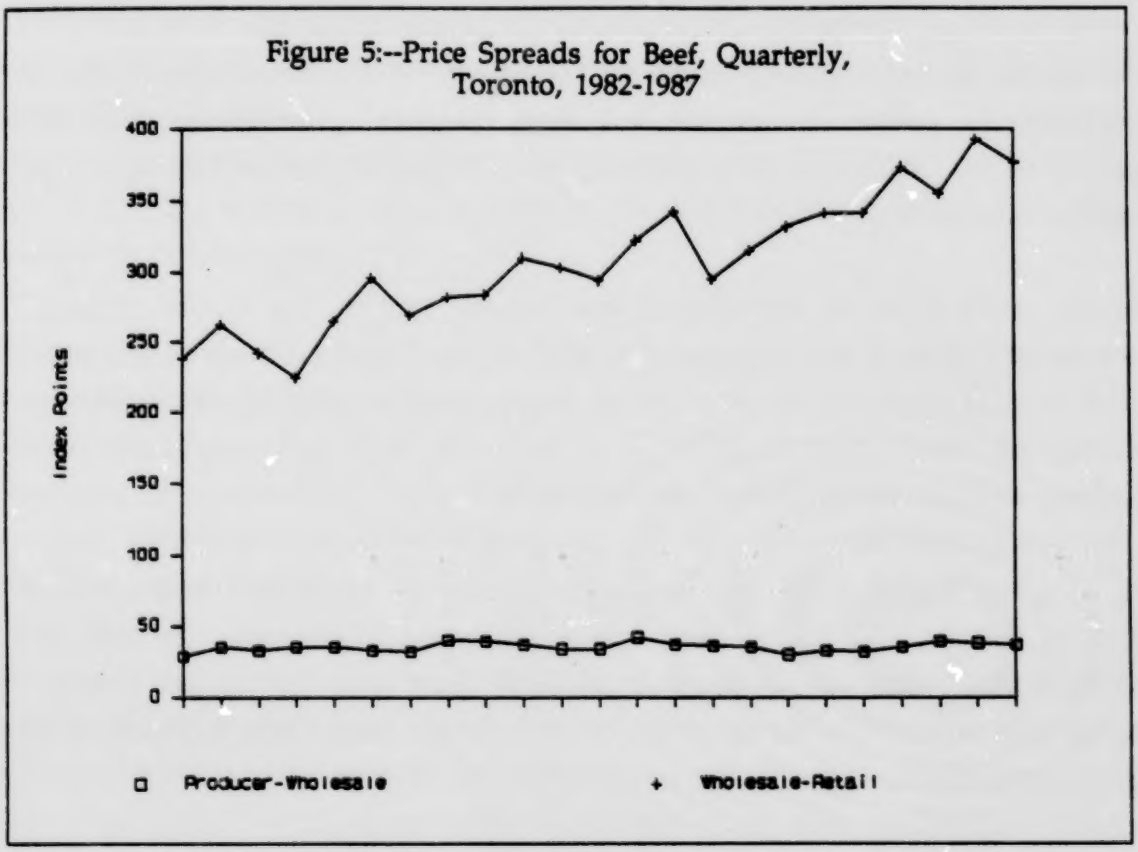
Source: Food Market Commentary, Agriculture Canada, June 1986.

expenditures for poultry was 3.5 percent compared with 3.4 percent of total expenditures on food and beverage in 1984. As a result, real expenditures on poultry products have increased between 1971 and 1984, while real expenditure for other meat, namely beef and pork, has steadily declined. In fact, expenditure for chicken has increased as a percent of the total allocated for consumer spending. In 1969, 2.5 percent of the consumer dollar went to chicken consumption compared with the 1984 level of 2.7 percent.

Between 1982 and 1987, the retail and wholesale price spread gradually increased. This increase in price spread reflects the growing cost of processing and packaging

involved in beef products. As a result, there has been a decline in the percent of total consumer expenditures on meat products filtering back to the packers and the beef cattle producers.

Figure 5:--Price Spreads for Beef, Quarterly, Toronto, 1982-1987



Source: Food Market Commentary, Agriculture Canada.

The demographic changes affecting the beef industry have included a rise in the Canadian population as well as an increase in the number of families within Canada. In 1971, the total number of families in Canada was estimated at 5.1 million. By 1986, the number of families had increased to 6.7 million. Trends in Ontario have also paralleled the growing number of families occurring nationally.

In 1971, the total number of families in the province was estimated at 1.9 million as compared with the 1986 level of 2.4 million.

Although the number of families in Ontario have increased, the size of these family units has decreased. The slower Canadian population growth in the 1980's has meant the beef industry could no longer rely on population growth for an expansion in production volumes and total revenues. The strong population growth of the 1960's and 1970's oriented the beef industry toward low cost, high-volume operations.

In the marketplace of the 1980's, slow market growth has caused increased competition between the different meat products and the marketing of diversified product lines aimed at specific market niches. As a result, the meat industry throughout North America has been adjusting to these new constraints. The Ontario beef industry is a part of this adjustment.

In 1971, the average family size was approximately 3.7 individuals within Canada and, in Ontario, this average was approximately 3.6 individuals. By 1986, the average family size had declined to 3.1 individuals with the highest frequency being two persons per family. The decline in the family size has resulted in greater demand for small portion cuts of meat.

This trend has benefited poultry products, especially chicken, which has been retailed increasingly in a variety of package sizes. In comparison, many of the high-quality, high-value beef cuts are merchandised in large portions and often require a considerable share of the consumer's weekly expenditure on food. This marketing method is increasingly at odds with the portion sizes demanded by the small family.

The Canadian population in the working-age range of 18 to 64 years has been increasing. This group of consumers tends to have a higher level of disposable

income, with a greater capacity to purchase high-quality, high-value meat products. The increased number of individuals in the working-age range should benefit beef consumption.

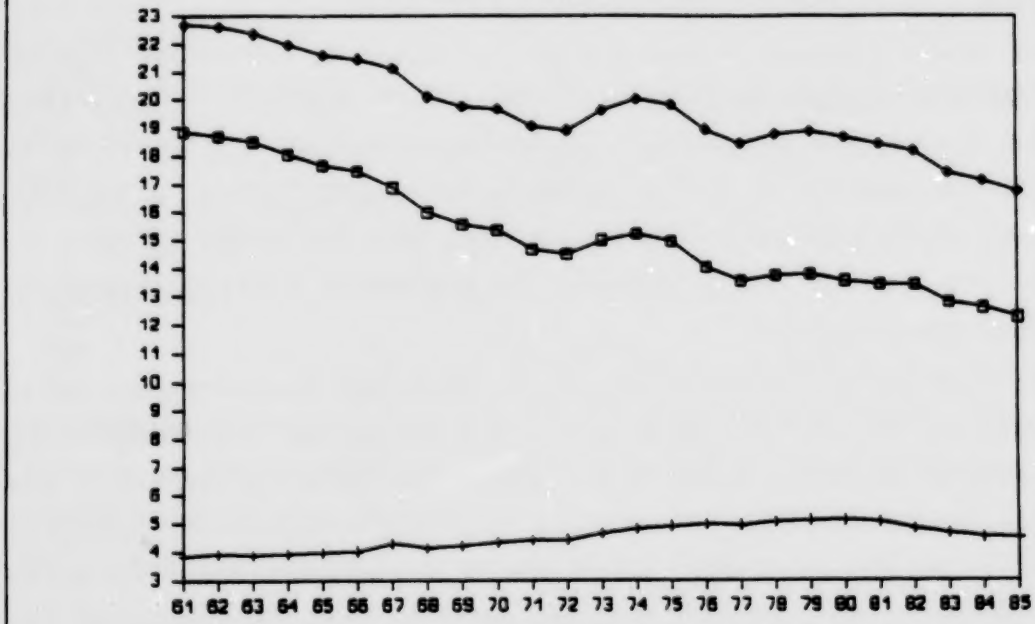
The demographic changes occurring in Ontario and, more generally, in Canada, have been coupled with alterations in the female participation rate in the work force. This has caused a rise in the number of dual-income families. From 1961 to 1981, the female participation rate has increased from 28.7 to 51.7 percent. A rise in the time constraint facing families in the preparation of meals has resulted from these developments.

Consequently, fewer meals are being prepared at home and food purchases at away-from-home facilities have increased. In this new environment, the need for convenient, time-saving foods has grown. Households have placed a greater premium on convenience today. While beef is a nutritious and high-quality product, alternative meat products have laid claim to more convenience for the time-pressed consumer.

The health and dietary concerns of consumers have been growing throughout the 1980's. Recent surveys have shown that consumer concerns regarding chemicals and food additives, fat content and cholesterol have had a negative impact on meat and poultry consumption. The lower, per capita beef consumption levels have been a consequence of several factors including a rise in consumer health and dietary concerns.

A second component in the rise of health and dietary concerns has been the change in consumers' tastes and preferences toward leaner and juicier beef products. This development has triggered the production of leaner beef cattle. The beef industry has attempted to counteract the decline in beef consumption by developing innovative new products (e.g. small cuts and restructured products).

Figure 6:--Food Expenditures as a Percent of Personal Expenditures, 1961-1985



Source: Statistics Canada, Catalogue No. 62-010.

These products have boasted greater convenience and lower fat levels. New research has confirmed lower cholesterol and fat levels for beef. Advertising and educational programs have been used to disseminate these new developments to consumers.

The Canadian beef industry, from cattle production to retail outlets, is margin-driven. The profitability of the beef industry is directly related to the volume of beef sold. The decline in beef consumption has reduced profitability and resulted in over-capacity throughout the industry. Between 1980 and 1986, the North American beef packing industry and other sectors in the beef industry experienced significant plant rationalization and relocation with the objective of lowering costs and maintaining profit margins.

Consumers perceive beef to be less convenient than many alternative meat and poultry products. The change in consumption patterns combined with higher feed prices in the mid-1980's caused a drop in beef cattle production and beef farm numbers. The decline in production throughout the beef industry has increased tension and the pressure for action aimed to improve the economics of the industry.

Beef Cattle Production

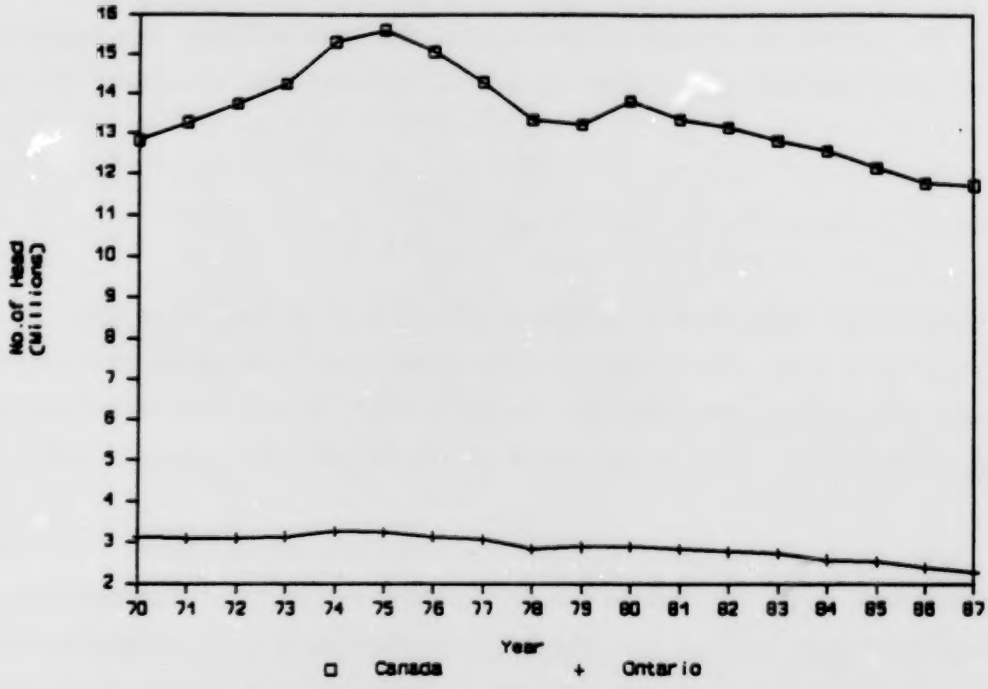
In 1987, cash receipts from beef cattle sales reached $1.07 billion, down from $1.13 billion the previous year. Cash receipts from cattle sales represented 19.5 percent of total farm cash receipts generated in Ontario in 1987. Cattle sales accounted for the largest share of farm revenues generated in the Ontario agricultural sector.

Canadian beef cattle production has fluctuated over the last 20 years. In 1970, total on-farm cattle were 12.8 million head. By 1986, this number had declined to 11.9 million head after peaking in 1975 at 15.6 million head (3.12 million head in Ontario). Canadian cattle inventory for July 1, 1988 was 11.8 million head, with Ontario at 2.4 million head. The strong increase in cattle production throughout Canada in the mid-1970's was a result of high cattle prices in the early 1970's. Since 1976, cattle production in Ontario has declined steadily.

The decline in cattle production in Ontario has paralleled the consumer-demand forces affecting the industry and the general downward trend in cattle production in Eastern Canada. For instance, in 1971 total cattle production was 5.2 million head in Eastern Canada compared with the 1986 level of 4.3 million head. In Western Canada, cattle production in 1971 was eight million head, declining to 7.7 million head by 1986.

The fluctuation in cattle numbers throughout Canada has generally been more pronounced in the West than in the East. Eastern Canada cattle production has

Figure 7:--Cattle Inventory, July (June)
1970-1987



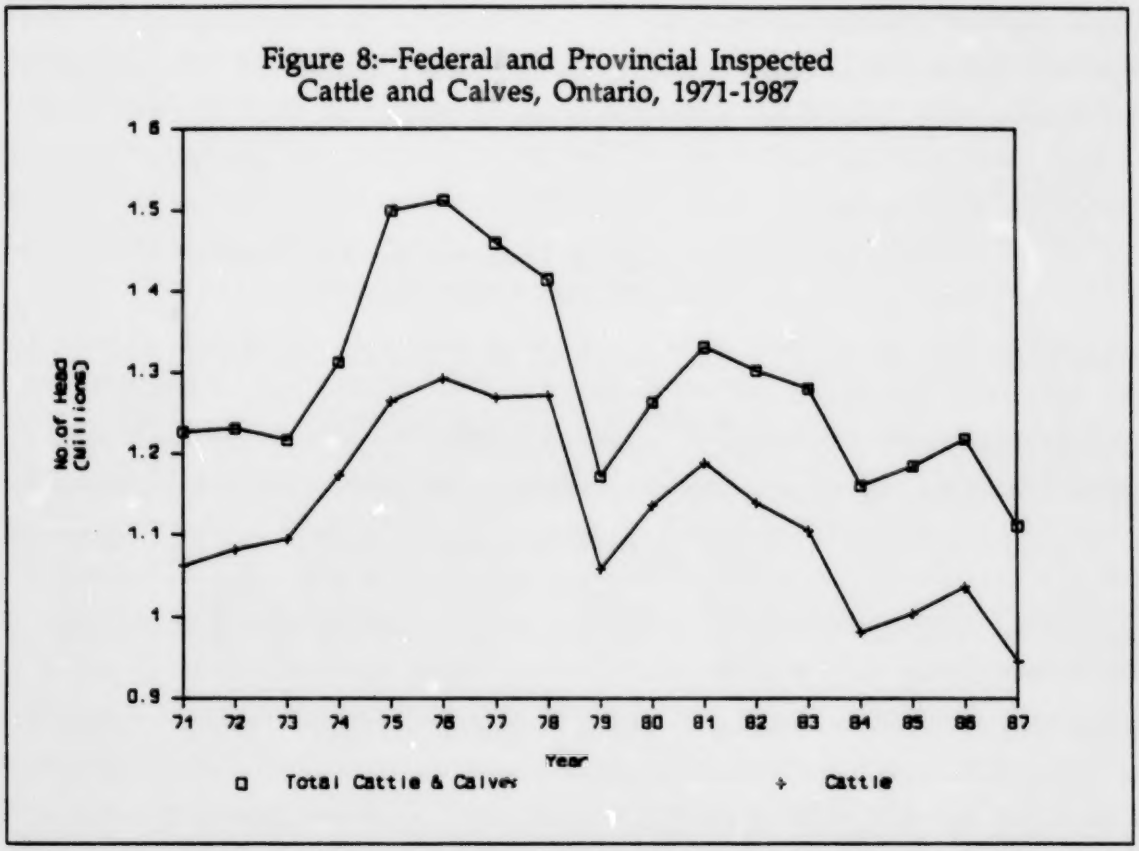
Source: Statistics Canada, Catalogue No. 23-203
Agricultural Statistics for Ontario.

tended to experience steady declines and relatively small fluctuations over the period of 1970 to 1986. In comparison, cattle production in the West has swung from 7.5 million head in 1970 to a high of 10.2 million head in 1975, down to a low of 7.3 million head in 1987.

A number of downward trends in cattle production contributed to a number of significant changes in the Ontario agriculture sector. Hog and poultry production has increased. Simultaneously, corn silage production has dropped. Peaking in 1975 at 352,000 hectares, land devoted to silage corn production declined to 162,000 hectares in 1987. Hay production has also declined.

In contrast, the area dedicated to grain corn and soybean production has increased. Land devoted to grain corn production increased from 445,000 hectares in 1970 to 745,000 hectares 17 years later. Total soybean production, in 1970, was 136,000 hectares compared with 453,000 hectares in 1987. These developments have provided farmers with alternative agricultural enterprises and feeding practices.

Figure 8:--Federal and Provincial Inspected Cattle and Calves, Ontario, 1971-1987



Source: Canadian Livestock and Meat Trade Report.

In 1986, farms reporting slaughter cattle were 19,920, down from 22,975 in 1981. In 1981, farms with 33 or more slaughter cattle each accounted for 21.3 percent of the total; by 1986, this number had increased to 23 percent.

For farms reporting beef cows and heifers, the number had dropped from 24,914 farms in 1981 to 20,975 farms in 1986. These declines have occurred primarily for producers in the 1 to 7 cows and heifers per farm category (from 7,458 to 5,685 farms) and the 178-and-over category (from 54 to 31 farms). In comparison, farms reporting between eight and 177 beef cows and heifers account for 72.8 percent of the animals held. That figure was 69.9 percent in 1981.

Table 1:–Selected Livestock Classified by Herd Size, 1981 and 1986, (Farms Reporting)

No. of Head	Dairy Cows & Heifers		Beef Cows & Heifers		Slaughter Cattle	
	1981	1986	1981	1986	1981*	1986
1-7	4,009	2,199	7,458	5,685	10,917	8,659
8-32	4,697	3,077	13,337	11,692	7,176	6,683
33-77	7,964	6,836	3,580	3,135	2,527	2,502
78-177	2,688	2,510	445	432	1,507	1,369
178 & over . . .	144	161	54	31	851	707
Total	19,502	14,783	24,874	20,975	22,978	19,920

* The data for slaughter cattle shown in the Agricultural Statistics for Ontario, 1981, was in error. The numbers were corrected to those shown above.

Source: Agricultural Statistics for Ontario, 1981 and 1986.

The distribution of all cattle (beef and dairy) farm sizes in Ontario is characterized by the majority of farms with up to 32 head of cattle. Forty percent of the 39,649 farms reporting cattle in Ontario in 1986 were in this category. While this group

has the largest number of farms, cattle producers with 33-77 head held the largest share of the cattle (28%) in the province. Farms in these two groups (i.e. 1-32 and 33-77 head), hold only 38 percent of the cattle inventory in the province. As a result, farms with 78-or-more head of cattle account for the largest share of Ontario's beef production.

Over the past 10 years, the pattern of production has remained relatively constant. However, production in 1971 had farms with 33-77 head of cattle per farm; these represented the major cattle operations in the province. This group held 1.3 million head of cattle of the total 3.1 million head of on-farm cattle. By 1986, farms in this group had declined substantially in the number of cattle held and the number of farms. Farms with 178-or-more head of cattle have increased significantly during 1971 to 1986.

As a result, these farms have been producing a larger share of the total amount of beef produced in the province. The trend in the distribution of farm sizes in Ontario points to an increased spread between: 1) commercial operations, and 2) cattle producers with alternative primary sources of income (e.g. part-time operators).

In 1986, the number of farms classified as cattle farms (excluding dairy) with sales of $2,500 or more, indicating involvement in off-farm work, was 8,900 farms. The majority of these farms had more than 157 days of off-farm work, while the farms engaging in 229 days or more of off-farm work were 4,016. With such a significant time allocated to off-farm work, the Ontario cattle industry represents the major part-time agricultural activity in the province.

The Ontario beef industry is comprised of four main producing components. These components are: feedlot, backgrounder, cow-calf and veal sectors. The feedlot component of the industry produces cattle for slaughter. These animals are usually purchased as feeder cattle, at weaning weight, and fed-to-finish weight

before being marketed as slaughter cattle. The cow-calf component of the industry provides feeder cattle for the feedlot and backgrounder sectors of the industry. The backgrounder component of the industry is engaged in raising feeder cattle for sale prior to slaughter weight. As a result, the cattle produced by backgrounder operators are sold to feedlots for further feeding before being marketed as slaughter cattle. The veal sector of the beef industry selects for slaughter new-born calves, primarily from the dairy industry.

Between 1976 and 1986, the returns to feedlot producers have fluctuated from a position of moderate losses to positive net farm income. These wide fluctuations in average net farm income can be primarily attributed to changes in feeder cattle prices and feed costs. Feeder-cattle costs are the largest component of the feedlot expenditures. Feed costs are the second most important cost component, according to the information recorded on the Ontario Farm Management Accounting Project[3].

According to the Ontario Farm Management Accounting Project, cow-calf operators over the period of 1976 to 1986 have generally received positive returns over cash costs, but low-to-negative net farm incomes. These returns have also tended to be very volatile, following the general trends in feeder and slaughter cattle prices. Ontario cow-calf operators have an average of more than 80 percent equity. This position has allowed these operators to sustain low returns against their total costs of production over extended periods, so to capitalize on increased profit margins of buoyant periods in the sector. Finally, the interaction between feedlot and cow-calf operations has meant that changes in the profitability of one sector are transmitted on to the other sector in terms of lower or higher feeder-cattle prices.

Between 1976 and 1986, there has been a mixture of years with positive and negative net farm income for feedlot and cow-calf operations. The returns to

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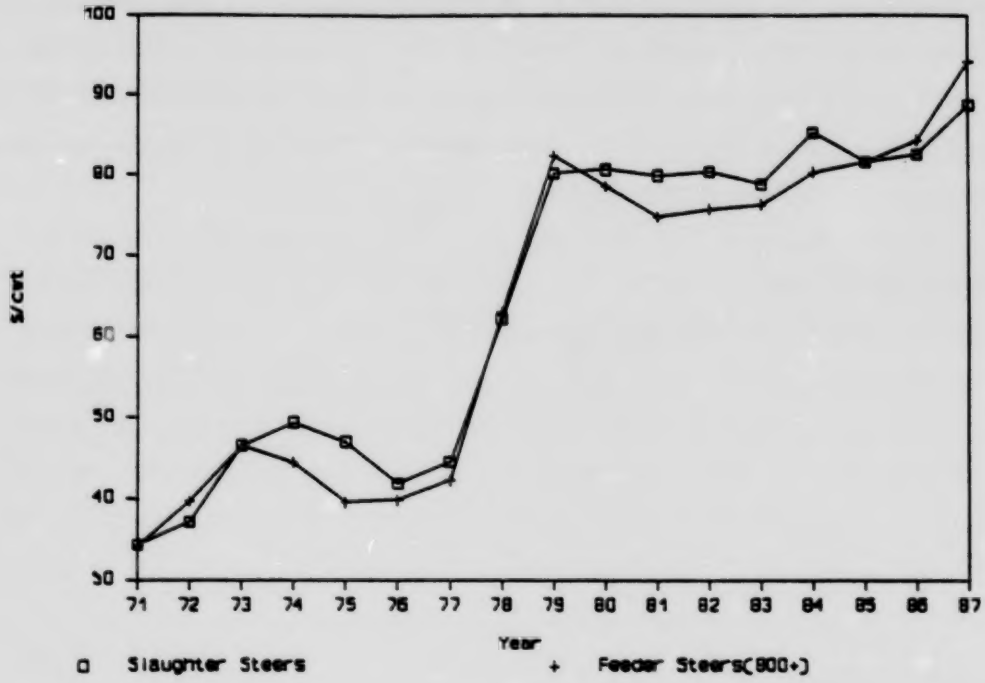
[3] Between 1976 and 1986, the Ontario Farm Management Accounting Project generally had between 25 and 65 feedlot operators, and 70 and 117 cow-calf producers included in the financial and enterprise analysis.

Figure 9:--Slaughter and Feeder Price Comparison
Toronto, 1971-1987



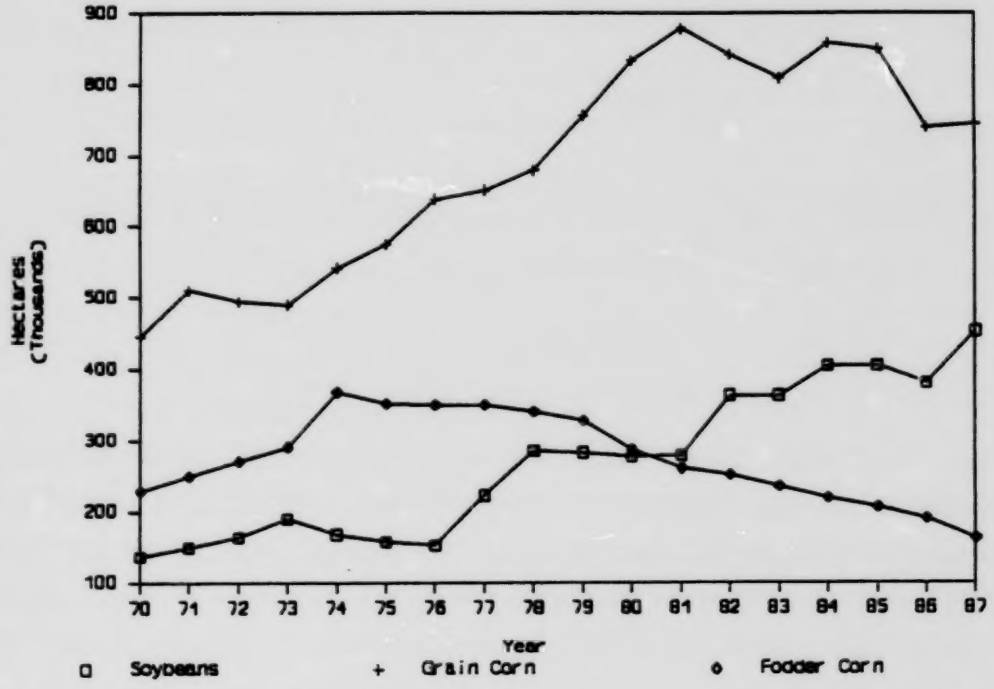
Source: Canadian Livestock and Meat Trade Report.

labour on these farms were often negative, as shown by the Ontario Farm Management Accounting Project[4]. This suggests that the returns to labour in the beef industry tend to be volatile and low. Additionally, rates of return of nine percent of total assets in beef production may not represent reality. A large portion of the land used in beef production has few suitable alternative uses. As a result, a nine percent rate of return on total assets may not reflect the returns these assets can earn in other enterprises.

[4] The returns to labour are equal to net farm income plus interest paid, less 9 percent on total assets.

Beef production in Ontario has undergone considerable development over the last 30 years. In the late 1950's and 1960's, rising corn silage production in the province facilitated the development of feedlot operations. These feedlots were instrumental in improving the productivity of the Ontario beef industry and the quality of beef produced. As a result, the rise in beef consumption during the 1960's and 1970's can be linked to the improvements occurring in the feedlot sector in Ontario and throughout North America.

Figure 10:--Area of Selected Field Crops, 1970-1987



Source: Agricultural Statistics for Ontario
Monthly Crop and Livestock Report, December 16, 1987.

The rise of feedlot operations in Ontario had an impact on the cow-calf sector. The cow-calf sector improved the genetic quality of feeder cattle. In the 1970's, these improvements were augmented by the importation of exotic cattle from western Europe to supplement the British, breeding-cow herds of the Ontario cow-calf sector. These exotic breeds facilitated production of beef cattle with higher weaning weights and low fat cover.

These changes in the beef production in Ontario have increased the efficiency of the industry and the quality of beef products. However, conflicting demands of consumers have pushed cattle production in opposite directions. Consumers currently demand beef products that are lean (i.e., low external fat cover), but juicy and tasty (i.e., high internal fat or marbling levels). It has remained a challenge for the beef industry to produce the products demanded by consumers and to devise a system for transmitting the correct market signals back to beef-cattle producers.

Beef and Beef Cattle Trade

The Canadian beef industry is characterized by a two-way flow of cattle between the U.S. and Canada. Western Canada primarily ships slaughter and feeder cattle to the U.S. while Ontario imports a sizeable quantity of slaughter, and some feeder and beef cattle from the U.S. Ontario also supplements its beef production by the purchase of feeder cattle and slaughter cattle from Western Canada. Over the past 10 years, the number of feeder cattle from Western Canada has steadily declined as the West has increased its own beef production.

As a result, Ontario has increased feeder-cattle imports from the U.S. and Eastern Canada. The West, however, remains the major supplier of feeder cattle to Ontario.

Imports of beef and beef products into Canada come primarily from four main sources: the U.S., Australia, New Zealand, and the European Economic Community (EEC). Canada exports beef primarily to the U.S. and Japan.

Canadian beef exports to the U.S. have tended to exceed imports. Since 1975, the spread between the value of beef exports and imports has been steadily increasing in Canada's favour. For Ontario, however, the spread between imports and exports of beef products has fluctuated between 1973 and 1986. From 1973 to 1978, beef products entering Ontario's ports from the U.S. exceeded the exports of beef to that country[5]. While this flow was reversed during 1979, Ontario has again become a net importer in terms of the value of beef and cattle traded between itself and the U.S. These imports peaked in 1981 and have remained relatively stable since 1982.

The international flow of beef throughout the world is governed by the General Agreement on Tariffs and Trade (GATT) principles and rules. Both Canada and the U.S. have meat-importation laws which regulate access to their markets. Similarly, Japan regulates beef imports under the Livestock Improvement Promotion Corporation (LIPC) through the use of global import quotas, and Mexico regulates the export of feeder cattle to the U.S. through the use of export quotas and levies.

The international trade in beef and beef cattle is determined by (1) supply and demand forces and (2) international agreements and domestic policies. These factors present the Ontario beef industry with challenges and opportunities (e.g. the Canada-U.S. Free Trade Agreement).

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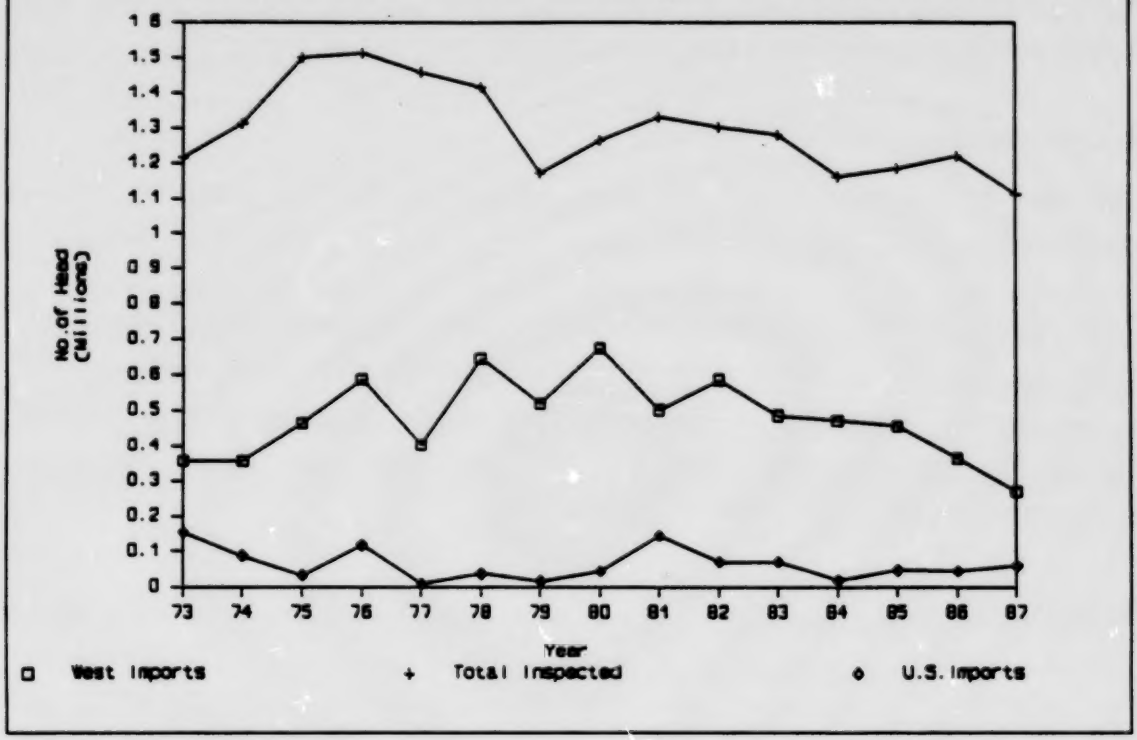
[5] Product entering or exiting Ontario ports only indicates that product moved through facilities in Ontario. It does not necessarily indicate that these products were consumed or produced in the province.

Figure 11:--Feeder Cattle & Calf Movements from West, Inspected Slaughter Cattle & Calf Slaughter in Ontario, 1973-1987



Source: Canadian Livestock and Meat Trade Report.

Other characteristics of the industry have resulted in cases being launched by offended trading partners. In 1986, the Canadian Cattlemen's Association brought before the Canadian Import Tribunal a case against the EEC for dumping beef products into Canada. This case was successful and resulted in a reduction in the importation of beef from the EEC.

The case resulted in a duty of two thirds of the Montreal wholesale price of manufactured beef contributing to the fall in EEC exports to Canada from 2.24 million pounds in 1986 to 0.16 million pounds in 1987.

The international linkages between the beef and beef cattle sectors in Canada and other countries have resulted in Canadian beef production and beef cattle prices reflecting both domestic and international forces. This relationship has been further solidified by Canada being an overall net importer of beef.

Selling Methods

Cattle Selling Methods

Cattle selling methods in Ontario relate to the production characteristics of the beef industry. The sale of feeder cattle is achieved through three main methods: live auction, private treaty and satellite sales. The sale of slaughter cattle is achieved through four main methods. These are: live auction, electronic auction, rail grade auction and private treaty (direct-to-packer) sales.

Background

The marketing channels of the Ontario slaughter-cattle sector reflect an evolutionary development culminating in the current market structure. The evolutionary process of the Ontario slaughter-cattle sector has its roots in the development of community auction markets in the 1940's. These community auction markets introduced live auction sales during this period.

Prior to the establishment of community sales barns, the Ontario slaughter-cattle market was dominated by private treaty sales. These sales were and still are transactions which take place between individual farmers (or in some cases an agent of the farmer, namely, drovers or dealers) and a representative from a particular packing plant. However, in 1960, the Ontario Stock Yards (OSY), which had provided commission agents for private treaty selling over the years, also introduced live auction sales as an alternative.

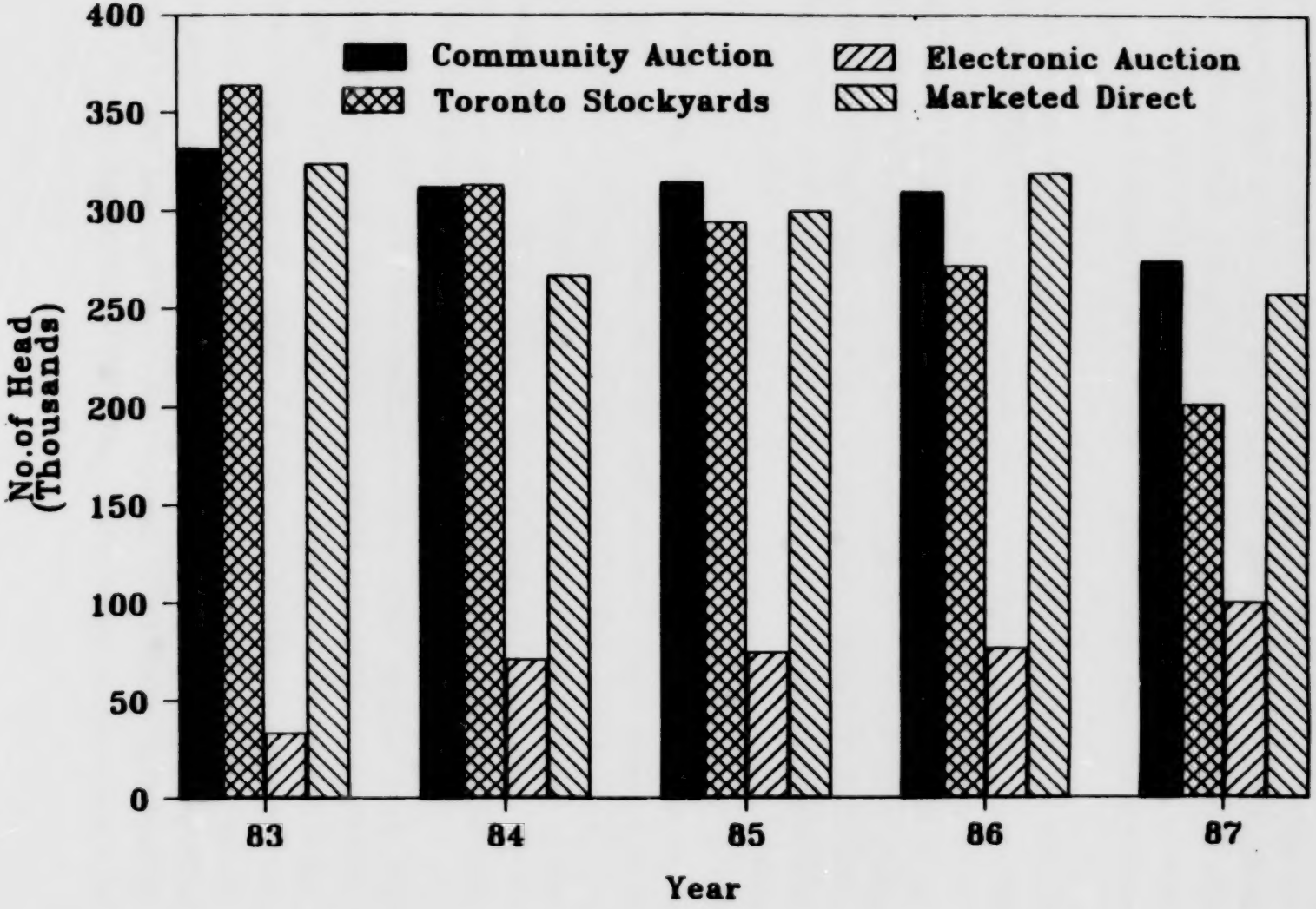
The efforts of producers to increase the number of buyers openly bidding on cattle offered for sale resulted in the introduction of legislation to regulate live cattle sales through auction markets. The auction yard system encouraged the sale of cattle on a live-weight basis, with a number of competing bidders present. As a result, this marketing system has been referred to as "competitive bidding."

Between the 1950's and 1970's, slaughter cattle sales were made through both the competitive bidding and private treaty arenas. During the 1970's, the rise in feedlot operations caused an increase in cattle production and, correspondingly, a rise in slaughter cattle moving through the competitive bidding system and the private treaty process. During this period of increasing cattle production, the private treaty and competitive bidding system were complementary in providing a marketing system to move slaughter cattle from the farmgate to the slaughtering plant.

In the mid-1970's cattle production and slaughter in Ontario and across North America peaked. Gone were the days when the marketing systems were under pressure to provide increased capacity for the movement of slaughter cattle to packing plants. The expansion of community auction markets began to slow and the OSY cattle sales were declining. The reduction in slaughter cattle production had a two-fold impact on the competitive bidding system.

First, fewer slaughter cattle were being offered and fewer cattle were being sold through competitive bidding arenas, owing to greater attempts by producers to reduce costs and maintain the control of cattle to the door of the plant. In addition, the development of large feedlots in Ontario facilitated direct negotiations between producers and plant operators. These actions were also related to the reduction in profitability of beef-cattle operations as cattle prices dropped during the late 1970's. Shock waves from the energy crisis were also filtering throughout the economy causing higher inflation and a rise in interest rates.

Figure 12:--Route to Market for Cattle Slaughtered
in Ontario, 1983-1987



Source: Ontario Cattlemen's Association

The reduced cattle sales at the competitive markets caused a decline in the revenues generated by auction yards. With revenues primarily generated on a per head basis, the decline in cattle sales translated directly into lower revenues. At the same time, high overhead costs caused profit margins to fall substantially as sales dropped.

The new environment facing community auction markets resulted in a downsizing of the industry. In some situations, community auction markets were closed and, in others, the facilities were underutilized.

A second force in North America began to shape the marketing structure of the slaughter-cattle industry by the late 1970's. This force was the relocation of packing plants from the urban or high-population density areas to areas where cattle were being produced. The attempts of packing plants to reduce transportation expenses, handling costs and labour rates were the primary impetus behind these developments. Further, innovations in the truck refrigeration systems and lower transportation costs also influenced the decision. The U.S. packing industry led the trend towards relocating plants.

In the early 1980's, reduced cattle numbers and rationalization in the packing industry caused pressure on the slaughter-cattle marketing structure in the province. The debate between proponents of the private treaty and competitive bidding system increased and the cattle industry in Ontario was at a crossroads.

In 1984, the Beef Marketing Agency Commission was established to address the marketing concerns of the industry. The commission's mandate was primarily to examine market alternatives for the beef industry, with the restriction that supply management was not an option. The commission recommended the beef cattle market structure be changed to prohibit private treaty sales and allow only competitive bidding. Another commission was to be established to regulate this system. However, the validity of the Beef Marketing Agency Commission's

recommendations were questioned by some groups in the beef industry. The recommendations relating to the market structure of the industry were never implemented. It should be stressed, however, that a number of the other recommendations, such as a need for market information, were addressed.

In the early 1980's, numerous studies throughout Canada were conducted on the beef marketing structure. These studies examined several marketing alternatives including private treaty and competitive bidding. Additionally, new systems were investigated such as electronic auction sales.

In 1982, an electronic auction system was established, on a trial basis, by the OCA and financially supported by the Ontario Ministry of Agriculture and Food (OMAF) and Agriculture Canada. This system added a new dimension to the cattle-marketing structure in Ontario. Experimentation with this system demonstrated its technical feasibility, but its acceptance by the industry was to develop at a later date.

In 1983, the commercial establishment of an electronic auction system allowed cattle to be sold by competitive bidding on a carcass grade and weight basis. The system also allowed cattle to be shipped directly from the farmgate to slaughtering plants. Electronic auctions have been successful in addressing some of the cost concerns of producers (e.g. producers using the private treaty method) while providing competitive bidding for the advocates of auction selling (e.g. producers using live auction sales).

Rail grade auction sales provide a similar service to the electronic auction system. The rail grade auction system allows cattle to be listed and auctioned to a number of bidders. The system provides similar benefits outlined in the electronic auction system. However, the rail grade auction system is still in the developmental stage.

Satellite sales have also been developed as a means of permitting buyers in the southern regions of the province to bid on stocker cattle being auctioned at Northern Ontario locations. This development has been driven by the need of northern producers to access a larger viewing and purchasing audience, as well as the desire of purchasers to minimize their travel time and cost. The availability, accessibility and cost of new technology (i.e. satellites and video cameras) have also facilitated the development of satellite sales.

The selling of cattle via the private treaty method, electronic auction and rail grade auction systems has a number of advantages. They include: reducing the cost of selling, lowering shipping and handling charges, and reducing cattle shrinkage and bruising.

Producers have identified several disadvantages with direct producer-to-packer sales (private treaty sales). These disadvantages include the low quality and level of information generated from private treaty sales, and the concerns that these deficiencies may cause price distortions. Additionally, producers engaged in private treaty sales may use market information generated through the auction system.

Since these producers do not pay any marketing fee to the auction selling system, free market information is acquired. The cost of generating market information is relatively small as compared with the other costs of auction facilities in Ontario. Additionally, all beef producers contribute to the market information system provided by the Ontario Cattlemen's Association. Although several concerns have been raised, private treaty sales have maintained a relatively stable share of slaughter-cattle marketings.

Feeder Cattle Sales

Ontario feedlots purchase feeder cattle from cow-calf producers within the province, Western and Eastern Canada and the U.S. The majority of the feeder-cattle sales in Ontario occurs through community auction markets and the Ontario Stock Yards. Feeder cattle are also sold through producer-to-producer or private treaty transactions. Regardless of the method of sales, producers often acquire the services of a dealer or drover to purchase feeder cattle on their behalf. For this service, a commission is paid to the dealer or drover.

The sale of feeder cattle in Ontario represents the final activity in the production system of cow-calf operators and the initial process for the feedlot. Feedlot operators purchase feeder cattle to bring these animals up to a market weight. These animals are sold to packing plants for slaughter. As a result, the efficiency and performance of feeder cattle markets are particularly important to the cow-calf operator, feedlot operator and Ontario packing industry.

Slaughter Cattle Sales

The current slaughter-cattle marketing structure reflects the evolution which has taken place in the Ontario beef industry. The existence of six distinct marketing systems attests to the varying forces and needs the marketing structure has had to accommodate (Table 2).

Each marketing system provides a level of price discovery. However, the rapid flow of information and relative, unrestricted provincial and national borders have caused Ontario cattle prices to reflect the supply and demand condition in the North American market -- not only local conditions.

Table 2:--Current Market Structure, 1985-1987

Marketing System	Share of Slaughter Cattle Sales 1985	1986	1987
		- percent -	
1. Community Auction Markets	30.1	29.3	28.6
2. Private Treaty	28.7	30.2	26.8
3. Ontario Stock Yards	28.2	25.7	20.9
4. Electronic Auction	7.2	7.3	10.4
5. Toronto Rail Grade Sale			1.5
6. Imports from U.S. and West	5.7	7.5	11.8

Source: Ontario Cattlemen's Association.

A second service, provided by the current marketing system, is sorting of cattle between feeder and slaughter-cattle markets. This service includes the assembling of cattle into lot sizes which are more cost efficient to ship to feedlots or slaughter facilities. In addition, the marketing system transmits information back to producers regarding the quality sold. The information transmitted also has an impact on the level of cattle production in the future.

The sale of finished cattle is the most controversial component of cattle marketing in Ontario. The issues involve the returns producers receive for their end product. This debate has focused on market structure and performance.

Regulations

The regulatory environment in the Ontario beef industry provides the framework for government and business activities in the industry. Regulations have been implemented by both the federal and provincial governments and cover a wide range of matters.

Provincial Regulations

There are twelve major provincial acts (Appendix A) which have a direct bearing on the Ontario beef industry. These are:

1 Beef Cattle Marketing Act
2. Live Stock and Live Stock Products Act
3. Farm Products Payments Act
4. Meat Inspection Act
5. Live Stock Community Sales Act
6. Stock Yards Act
7. Farm Products Grades and Sales Act
8. Farm Income Stabilization Act
9. Ministry of Agriculture and Food Act
10. Artificial Insemination of Livestock Act
11. Dead Animal Disposal Act
12. Dog Licensing and Livestock and Poultry Protection Act

Federal Regulations

The federal government regulations relate to:

1. Food Quality Assurance and Safety
2. Animal Health
3. Stabilization Programs
4. Livestock Feed Assistance
5. Stock Yards
6. Meat Imports
7. Taxation
8. Special Measures

International Agreements

Several international agreements influence beef trade between countries and the action of governments to influence the level and distribution of production or market share. The General Agreement on Tariffs and Trade (GATT) represents the major international agreement influencing the Canadian and, implicitly, the Ontario beef industry. The GATT is reviewed and revised on a periodic basis at multilateral trade negotiations between the signatories to the agreement. These negotiations have occurred on a four-to-five year basis since GATT was established in 1947. The principles and aims underlying GATT are:

- trade without discrimination
- protection through tariffs
- stable basis for trade consultation, conciliation and settlement of differences
- general prohibition of quantitative restrictions
- waiver and emergency action provisions
- regional trading relationships

At the current GATT negotiations, called the Uruguay Round, the general goals outlined under the discussions are as follows:

- reduce trade distortions by disciplined use of subsidies
- improving and securing access to markets
- minimized adverse trade effects of technical regulations

A second, important international agreement influencing the beef industry is the bilateral Free Trade Agreement (FTA) between Canada and the U.S. The FTA is being debated in both countries and the federal government intends to implement the agreement in 1989. Nonetheless, the intent on the part of U.S. and Canadian governments to implement this agreement has influenced agricultural policy formulation in both countries.

Two sections of the Free Trade Agreement will have particular impact on the beef industry. These are (Appendix B):

1. market access for meat
2. technical regulations and standards for agricultural food, beverage, and certain related goods.

The federal acts and regulations within Canada and the international agreements between countries provide a framework for government intervention in agriculture and competition between industries in various countries. Solutions to the problems plaguing the Ontario beef industry are also bounded by this framework. In developing the recommendations embodied in this report, the Task Force attempted to develop solutions which were plausible, given the underlying framework.

SUMMARY OF WRITTEN SUBMISSIONS

The Task Force received more than 219 written submissions from individuals and organizations relating to the Ontario beef industry (Appendix D). These submissions expressed a wide range of views and concerns on issues in the industry. These concerns and views could be categorized into 18 different groups. These were:

1. Status Quo
2. Supply Management
3. Single Desk Selling
4. COP Pricing
5. Direct Sales
6. Market Information Data Base
7. Carcass Indexing System
8. Beef Commission or Marketing Board
9. Ontario Stock Yards
10. Access to U.S. Feeder Cattle
11. Beef Import Controls
12. Red Meat Program
13. Cow-Calf Sector Incentive Program
14. Packer Owned Feedlots
15. A1,2 Grade Split
16. National Tripartite Beef Stabilization
17. Level Playing Field (East/West)
18. Rail Grade Basis of Selling

Concerns about the returns to the beef industry were a recurring theme throughout many of the submissions. The solutions proposed by these submissions to the issues varied widely.

CHALLENGES FACING THE INDUSTRY AND RECOMMENDATIONS

The challenges facing the Ontario beef industry reflect the evolutionary development of the industry. The recommendations of the task force have been developed with an aim to improve the long-term viability of the overall industry.

Industry Organizations

The Ontario beef industry is represented by several industry organizations. These organizations participate in a wide range of activities on behalf of their members. Consultation with government, lobbying, providing information and promoting increased profitability are but a few of the activities they carry out.

The organizations active in the Ontario beef industry represent members at the provincial and national levels. These organizations (e.g., Ontario Federation of Agriculture) may also be involved in broader issues than those relating to the beef industry. In Ontario, there are organizations that are directly involved in the beef industry. These are (Appendix C):

1. Ontario Cattlemen's Association.
2. Ontario Beef Producers for Change, Inc.
3. Ontario Livestock Auction Market Association.
4. Canadian Cattlemen's Association.
5. Canadian Meat Council.
6. Canadian Wholesome Animal Products Council.
7. Ontario Farm Animal Council
8. Beef Information Centre.
9. Ontario Beef Cattle Breed Associations.
10. Ontario Trucking Association.
11. Ontario Independent Meat Packers and Processors Association
12. Ontario Beef Cattle Performance Association

The actions of each organization affect the welfare of its members. The interrelationships and linkages between the different segments of the industry have also caused the actions of individual organizations to affect their members and, in general, the entire industry. Actions carried out by the packing industry have a significant impact on producers and vice versa.

Activities at the retail level have a significant impact on beef consumption and the other components of the Ontario beef industry. As a result, the industry organizations often consult one another on an ad hoc basis to develop coordinated positions and actions.

The linkages in the beef industry have caused an overlap in the objectives and membership of many of the industry organizations. In the beef production sector, producers are represented by two organizations: The Ontario Cattlemen's Association and the Ontario Beef Producers for Change, Inc. While some objectives and/or principles of these organizations overlap, there are components that are not mutually consistent or attainable.

These components lead to difficulties in the formulation of industry strategies and government programs aimed at promoting the long-term viability of the beef industry. Consequently, a single producer organization would be in the best interest of the beef industry.

The complexity and linkages of the Ontario beef industry have reduced the effectiveness of ad hoc consultations. As a result, a coordinating body is required in the Ontario beef industry to facilitate development of a strategic plan to address the challenges facing the industry and promote a long-term, viable beef industry in the province.

Accordingly, the following recommendations for the creation of an Ontario Beef Industry Council are made:

1. **An Ontario Beef Industry Council be established by the Minister of Agriculture and Food under the Ontario Beef Cattle Marketing Act.**

   I. **The Purpose of the council be:**

      a) **to identify and address the concerns of each segment of the whole industry.**

      b) **to recommend programs aimed at the betterment of all in the beef industry.**

   II. **The council will meet at least on a quarterly basis.**

   III. **The council would be comprised of a total of 15 members including the secretary. The members would represent the following segments of the industry:**

      a) **Northern stocker-feeder sales**
      b) **Feedlot operators**
      c) **Cow-calf producers**
      d) **Custom feedlot operators**
      e) **Veal producers**
      f) **Livestock dealers**
      g) **Provincially inspected slaughter and processing plants**
      h) **Federally inspected slaughter and processing plants**
      i) **Beef and veal purveyors**
      j) **Livestock auction markets**
      k) **Ontario Trucking Association**
      l) **Meat retailers**
      m) **Consumers**
      n) **Ontario Ministry of Agriculture and Food**

   IV. **The secretary of the council be appointed by the Ontario Ministry of Agriculture and Food.**

   V. **Appointments to the council be based on recommendations by each segment of the industry.**

Ontario Packing Industry

In 1987, total cattle slaughtered in federally and provincially inspected plants in Ontario was 944,109 head. This level of slaughter has gradually declined after peaking at 1.3 million head in 1978. The decline in cattle slaughtering has resulted in lower plant-capacity utilization throughout the province.

The trend towards lower utilization has also occurred throughout Canada as the level of production has declined from a peak in 1977 of 3.8 million head to the 1987 level of 3.0 million head. The decline in cattle slaughtered has been a major cause in the decreasing number of federally inspected packing plants in Canada from 98 in 1971 to 83 in 1988.

Ontario has paralleled this trend with 24 federally inspected plants, operating in 1971, down to 19 operating in 1988. Similarly, the number of plants in Alberta has dropped by half between 1971 and 1988 to eight plants.

The packing industry throughout North America has been shrinking while plant sizes have been growing. Also, new plants are now locating where the cattle are produced, rather than in urban centres. These changes have allowed the packing industry to gain economies of scale and reduce live cattle, transportation and handling costs.

The Ontario packing industry has been adversely affected in two ways by increased slaughter-cattle production in Western Canada. First, fewer feeder cattle have moved into Ontario from Western Canada, compounding the fall in slaughter-cattle production in Ontario. Second, the West has been increasingly producing boxed beef, causing greater competition for Ontario packers for retail and hotel, restaurant and institutional (HRI) clients. As a result, the Ontario packing industry has experienced a cost and revenue squeeze from the Western Canada packing

industry. This situation has been intensified by an announcement by a major meat packer to establish new slaughtering facilities in Alberta. A further decline in the number of western feeder cattle shipments to Ontario may result. This would cause a decline in the number of slaughter cattle produced and a lower capacity utilization for packing and processing plants located in the province. The further development of the packing and processing industry in the West will result in greater competition in the Canadian industry[6].

The Ontario packing plant industry has adjusted to the changing forces occurring in the beef industry. However, there are still a large number of plants located in urban centres such as Toronto. These locations may limit the ability of these plants to expand. The combination of excess plant capacity and infrastructural constraints have put Ontario's packing plants at a competitive disadvantage. This disadvantage is possibly offset by the lower capital costs these plants have, owing to age, over the new plants in the West and U.S. The close vicinity of many Ontario plants to large regional markets has also allowed these operators to meet the needs of retail, HRI and other customers on a more timely and consistent basis.

The age of Ontario's packing plants has presented the industry with both strengths and weaknesses. While lower capital costs are evident, these plants tend to have a lower technological base than more recent establishments. A second factor influencing the operating costs of Ontario beef packing plants is the variety of boxed-beef specifications required by the retail outlets.

In Ontario, most of the major retail outlets indicate to packers the specific cutting specifications, relating to trim, and the packers meet these specifications. In comparison, U.S. plants tend to have a particular specification accepted by the

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[6] Based on a study conducted by Kevin Grier, Food Processing Branch, Ontario Ministry of Agriculture and Food, on the Ontario beef packing and processing industry.

majority of their customers. As a result, U.S. plants are able to operate with fewer changes in their meat-processing procedures. This difference has contributed to the higher cost of meat processing in Ontario as compared with the U.S.

Increased competition in the packing industry has resulted in a reduction in the period beef is aged. The reduction in the aging period of beef has been aimed at reducing carrying costs and increasing throughput in the industry. The aging process has been a significant impact on meat quality, specifically, the tenderness of beef. The use of technology such as carcass electrical stimulation has provided a low cost substitute for the long aging process. While this technology is widely used in the U.S. and some small independent packing plants in Ontario, the large packing plants in Ontario have not taken advantage of this technology.

Another challenge faced by the packing sector and, in general, the beef industry is the entry of U.S. no-roll beef into the Ontario market. Traditionally, U.S. beef was perceived as a high-quality product by the HRI trade. However, no-roll beef offers a low-cost, but inconsistent product. As a result, there is concern this product may undermine the demand for beef as well as displacing Ontario beef. The no-roll beef issue is directly addressed in the Education and Research section of this report.

The recommendations developed by the task force relating to the packing industry are as follows:

2. **It is recommended that a forum be established for producers, packers, processors and retailers to identify and address industry concerns on a regular basis (as in recommendation 1).**

3. **It is recommended that a government program be established to assist in (i) the upgrading of beef-cattle slaughter facilities and (ii) the development of new beef products in Ontario.**

4. **It is recommended that a government program be developed to assist in the implementation of carcass electrical stimulation systems in beef-cattle slaughter facilities located in Ontario.**

Grading System and Standardized Procedures

The Canadian beef carcass grading system is regulated under the Canada Agricultural Products Act. Regulations under this Act establish the standards for carcass grades and plant facilities involved in the interprovincial and international movement of beef. These regulations are combined with provincial legislation to regulate provincially and federally inspected plants trading in Ontario.

The role of the grading system is to cluster products into relatively homogeneous groups and identify product quality based on economically significant factors.

The grading system can be used in the determination of producers' returns from the marketplace. Consequently, beef producers and packers have a great interest in the accuracy of carcass evaluation as determined by the grading system.

Changes in consumer demand have placed increased emphasis on meat quality. This emphasis has also been coupled with the continuing importance of meat yield. Currently, the grading system does not explicitly take into account meat quality and yield characteristics of beef carcasses. However, the importance of these two characteristics to the beef industry suggest a need for these developments.

Under the Canadian grading system, beef carcass grading covers the identification and/or examination of the carcass sex, age, muscling, fat cover and lean colour. The role of the Canadian grading system has been primarily to cluster animals into common groups based on these characteristics.

The current grading system reflects the changes made in 1972 when the carcass grade categories (A,B,C,D and E) were developed. The A-to-D grades are subdivided into groups (e.g. A1, A2, A3 and A4). The fat-cover level is an important factor in this determination. The fat-cover level is determined through ruler measurements. In 1987, the average difference between A1,2 steers and A3

steers was $10.00/cwt and for A4 steers it was $25/cwt. Although not explicitly stated by the grading system, A1 and A2 (i.e. A1,2) carcasses have become the industry standard.

As a result, producers have tended to produce animals that will meet this fat-cover category. Small changes in fat-cover levels (e.g. one millimetre) can cause cattle to be placed in another grade and a large reduction in the price received.

The Canadian beef-cattle grading system consists of two components. The first component, the objective measurement system, relates to sex, muscling and fat-cover identification. The second component, non-empirical measurement system, relates to carcass colour and age identification.

Meat quality is significantly influenced by activities carried out at the packing plant level. Packing plant processes such as cooling, aging, and electrical stimulation of carcasses can have a significant effect on the quality of beef. The co-mingling of cattle prior to slaughter, and factors such as transportation and handling, have a significant impact on the incidence on carcasses known as dark cutters. Consequently, grading on the basis of meat yield and quality poses many challenges to the beef industry.

In Ontario, the incidence of dark cutters is significantly greater than in Alberta. It has been suggested by researchers that the high incidence of dark cutters in Ontario is related to the high degree of co-mingling of cattle prior to slaughter in Ontario as compared with Alberta. In Ontario, the small lots of cattle shipped for slaughter have contributed to the need for co-mingling of cattle.

Consumers are becoming increasingly concerned about meat quality including characteristics such as tastiness, tenderness and juiciness of the meat. These characteristics often have to be evaluated after cooking the meat and can be influenced by meat-processing activities after grading. The grading system has

tended to de-emphasize these characteristics in determining carcass grades. Nonetheless, changing consumer demand and the diversity between market niches suggest that more consideration will have to be placed on these factors.

The recommendations from the task force relating to the Canadian grading system are as follows:

5. **It is recommended that an index-grading system for beef cattle carcasses in the A category be immediately implemented for beef cattle price settlement, in Ontario, and the A1 to A4 categories be eliminated. This system should be based on the current ruler-measurement techniques used in the industry.**

6. **It is recommended that action be taken to define optimum quality of a beef carcass in terms of: (1) fat cover, (2) cutability (yield), and (3) eating qualities, with a view toward defining the necessary specifications for Canada's top beef grade.**

7. **It is recommended that probe technology be developed and implemented in the Canadian beef-cattle grading system, with an aim of moving towards an indexing system which addresses cutability, fat cover and quality (e.g. tenderness).**

8. **It is recommended that government livestock graders be rotated between slaughter plants in Ontario.**

9. **It is recommended that an improved auditing procedure, to ensure uniform application of standards and procedures, be implemented in the federal beef cattle grading system.**

10. **It is recommended that there be compulsory grading of beef carcasses from cattle slaughtered in Ontario.**

11. **It is recommended that the Ministry of Agriculture and Food work with Agriculture Canada to provide an avenue of communication for grading staff which would facilitate handling concerns or requests for information by cattle producers on a timely basis.**

12. **It is recommended that, in the case of dark cutters, re-grading be done on the day following original grading.**

13. **It is recommended that emphasis be placed on reducing the incidence of dark cutters (based on current knowledge and research) and that further research be undertaken to reduce the occurrence of dark cutters.**

14. **It is recommended that an adequate level of inspection be provided to ensure effective enforcement of regulations under the Ontario Beef Cattle Marketing Act with respect to weighing cattle and carcasses and trimming carcasses.**

15. **It is recommended that, for cattle sold on a carcass weight and grade basis, producers be provided with copies of the weigh ticket in addition to the grade certificate.**

Ontario Stock Yards

The establishment of the Ontario Stock Yards (OSY) was made possible through the efforts of Ontario livestock producers, assisted by an Ontario government loan guarantee and the federal-provincial regulatory environment. The facilities utilized by the Ontario Stock Yards (OSY) were established in 1903.

Its primary role is to provide physical facilities for the sale of livestock to packers located in and outside the province. The OSY is engaged in a number of auxiliary services relating to the sale of livestock. These are: providing financial protection from buyer default, a distribution point for western cattle moving into Ontario, a livestock truck wash, in-transit feeding and holding of cattle, and market information.

An additional role that the OSY plays is in the sale of feeder cattle. The OSY is open five days a week for selling livestock, but is open seven days a week on a 24-hour basis for receiving and shipping livestock. In this regard, the OSY provides a unique service for the Ontario livestock industry.

A number of industry developments have had a significant impact on the volume of cattle sales occurring at the OSY. These developments include increased slaughter cattle production in Western Canada over the last five years. As a result, the number of feeder and slaughter cattle shipped from the West to Ontario has declined over time. This has had a significant impact on the operating costs of the OSY. Changes in the pattern of cattle shipments from the West to Ontario have also had an impact on the OSY.

During the 1960's and early 1970's, the main mode of transporting cattle to Ontario from Western Canada was via the railway system. Rail-unloading facilities are located at the OSY. However, improvements in the trucking system have caused trucking to become more competitive as the primary method of shipping cattle

from the West. As a result, the railway and other facilities at the OSY have been underutilized for a number of years.

The second development significantly affecting the OSY relates to the movement of the Ontario packing industry away from Toronto. This development has been primarily aimed at lowering the cost of transportation and handling cattle as well as reducing labour costs incurred by packing plants.

Cattle sales in Ontario have experienced a decline following the reduction in cattle production in the province. Additionally, major cattle-marketing facilities have developed in rural Ontario mimicking the changes in the distribution of cattle production and packing plants throughout the province.

Studies of the community-livestock auction markets have also shown that most of the animal shipments to sales facilities in central Ontario were in a 100-mile radius. Over 75 percent of these animals were from a radius of less than 25 miles. As a result, the reduction in livestock production in the Toronto vicinity has also caused fewer animals to be shipped to the OSY facilities.

The development of alternative cattle-selling methods has caused the OSY to experience greater competitive pressures. For instance, the development of an electronic auction system in Ontario resulted in a steady decline in the number of animals being shipped to the OSY. From 1986 to 1987, the number of steers and heifers sold through electronic auction increased from 77,279 to 100,679, representing a 30.3 percent increase over the period (Appendix E). Correspondingly, the volume of sales occurring through the OSY declined from 272,597 to 201,797, representing a 26 percent drop[7].

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[7] In 1987, there were also 14,650 slaughter cattle sold through the OSY rail grade sales system.

Similarly, private treaty sales declined by 19 percent from 319,874 head in 1986 to 258,109 head a year later. Over the same period, total inspected cattle slaughter in Ontario dropped from 1.04 million head to 0.94 million head, representing an 8.9 percent decline. As a result, the major cause for the decline in cattle sales through the OSY has been the increased competition from alternative-selling methods. The shift in the location of cattle-production and packing plants has also had a toll on the OSY.

In 1987, a decision was made by the Ontario government to provide financial assistance of $538,000 to the OSY. This financial assistance was aimed at eliminating the operating losses which had accumulated over the years and allowed the OSY to maintain its operation. This development has resulted in a significant degree of criticism from competing auction markets and selling services.

The criticisms have focused on the view that government assistance to the OSY represents unfair competition to other cattle-selling services.

However, the OSY and a number of participants in the livestock industry have pointed out that several unique services are provided by the OSY to the Ontario livestock industry. These services include competitive bidding, market information and a sales outlet for sheep, goats and horses. An excess capacity of livestock sales facilities currently exists in the province.

It should be noted that the Ontario Cattlemen's Association has engaged in the development of a beef-cattle, market information program. This program was a result of the Ontario Beef Marketing Agency Commission's recommendation for the establishment of a market information program. Assistance to this program was provided by OMAF.

The program has attempted to register market information on all auction yards with more than 10,000 cattle sales per year, and to include 80 percent of the cattle

sales occurring in the province. The development of this market information system has meant that the information provided independently by the OSY is becoming less important in establishing price trends in the cattle industry.

As a result, the two main functions of the OSY, providing market information and competitive bidding, have become less significant owing to the development of the OCA market information system and alternative-selling methods. Additionally, the OSY has been the target of some producer concern about some slaughter cattle not being weighed prior to sale.

The recommendations developed by the task force regarding the OSY are as follows:

16. **It is recommended that the OSY operate on a self-sustaining basis, without government subsidies including interest-free loans. However, the government should continue to be responsible for real estate taxes. If a self-sustaining operation at the OSY cannot be achieved by June, 1992, then the OSY should be closed and the commission firms be left to find their own solutions. Additionally, the OSY should publish annual reports.**

17. **In the event that OSY is phased out, it is recommended that any funds generated from the sale of any part or all of OSY be used for programs to benefit the producer groups who paid for the facility.**

    a) **It is recommended that all monies from such sales be placed in a trust fund and only revenue from the fund be used. The revenue should be used to assist in the creation and development of a world-class Meat Centre at the University of Guelph. The "Centre" mandate would be to conduct research pertaining to various aspects of the meat industry.**

    b) **It is recommended that the prospectus for the "Centre" would be developed by the University of Guelph and approved by an industry committee. The industry committee should consist of the Ontario Beef Industry Council along with representatives from the Ontario Pork Producers' Marketing Board and the Ontario Sheep Marketing Agency.**

18. **It is recommended that all cattle be weighed prior to sale and that all beef cattle returning to the farm be subject to veterinary inspection at the OSY.**

Note: **Recommendations 19 and 20 also apply to the OSY.**

Community Auction Markets and Northern Stocker Sales

The community auction markets in Ontario have provided an alternative outlet to the Ontario Stock Yards and other cattle-selling methods. Sales at the community auction markets have fluctuated over the last eight years between 37 and 28 percent of the total number of slaughter cattle sold in the province.

The development of the electronic and rail grade auction for the sale of cattle has been the primary reason for the decline in number of slaughter cattle going through the community auction system. This decline has also been hastened by reduced cattle production in the province. Nonetheless, the community auction markets have experienced a lesser decline in the number of cattle being sold through their facilities than has been the case at the OSY.

Community auction markets are located close to where cattle are produced throughout the province. This has cushioned the decline in sales through these community auction markets.

Northern Ontario cattle producers are serviced by three main selling systems. These are: (1) the Northern Stocker Sales, (2) the satellite auction service and (3) community auction markets. The Northern Stocker Sales and community auction markets provide an outlet for northern cattle producers to host live cattle auctions of feeder cattle.

Some Northern Stocker Sales' operations have expanded their services provided to Northern cattle producers by offering satellite auction services. These sales provide Northern Ontario producers with an opportunity to hold live auctions while providing Southern Ontario cattle producers easier access to these sales. As a result, the satellite auction system has allowed southern Ontario cattle producers to bid on Northern Ontario stocker cattle, while avoiding the travel time and costs associated with attending these northern sales.

A problem faced by both producers and purchasers of cattle from the auction market system has been the lack of standard cattle-handling procedures between the different markets (e.g. feed and watering practices). These differences have caused difficulties in comparing the prices established at the various auction markets.

The development of the Ontario Cattlemen's Association market information system has made a major step toward standardizing the descriptions of cattle sales made in the province. However, there is still a problem relating to the condition of fill. This is of particular concern in the sale of feeder cattle. The market information being generated by sales at auction markets also does not often fully find its way back to the cow-calf producer. As a result, the production of feeder cattle to meet final consumer demands has been slow.

The recommendations developed regarding the community auction markets, Northern Stocker sales, and OSY are as follows:

19. **It is recommended that all public auction sale facilities provide accurate descriptions on a standardized basis regarding the conditions of cattle for sale at their facility. These descriptions should include information on: (1) date of arrival at facility, (2) period held without feed and water, (3) sold with or without guarantee of heifers being open, and (4) name of consignor.**

20. **It is recommended that all livestock auction markets with beef-cattle sales of (a) 10,000 head or more annually or (b) single sales of 1,000 head or more, install electronic weight and printing devices and weight display boards in the auction ring. Beef cattle are defined as all animals sold subject to a licence fee deduction under the Ontario Beef Cattle Marketing Act.**

21. **It is recommended that the Ontario government maintain and, if necessary, expand its support and commitment to the Northern Stocker Sales. The Ontario government should place special emphasis on: (1) the satellite sales, (2) the implementation of electronic scales, display and printing devices, and (3) the establishment of veterinary inspection at Northern Stocker Sales.**

Ontario Cow-Calf Sector

The Ontario cow-calf sector supplies a significant portion of the feeder cattle used by Ontario feedlots. This sector has undergone a high degree of fluctuation over the last 18 years. In 1971, the number of cows held for breeding on January 1 was placed at 393,000 head, increasing to 540,000 head in 1975. Since that time, the number of cows held for breeding in Ontario has steadily declined. On January 1, 1988, the number of beef cows had dropped to 346,000 head.

The fluctuations in cow numbers in the province are directly related to changes in calf prices. These prices are significantly influenced by the profitability of the feedlot sector, feed costs, and the availability of calves from local, western and Eastern Canada and U.S. sources. Additionally, the impact of interest rates and the availability of funds to finance the feedlot operation influence calf prices and, in turn, cow numbers in the province.

The establishment of the Ontario Red Meat Program was aimed at improving productivity and calf quality of cow-calf operations in the province. This program has been successful in raising the weaning weight of calves produced. However, the decline in feeder cattle shipments from the West has limited slaughter cattle production in the province. This has been compounded by health regulations limiting access to U.S. feeder cattle.

Increased feeder cattle production in Ontario is dependent on the removal of constraints on production and the provision of adequate economic incentives. A constraint facing the cow-calf industry is overhead costs; specifically, the availability of adequate facilities and fenced pastures. This constraint is due in part to the volatility and low rate of returns cow-calf operators have experienced. In 1986, the rate of returns on investment for cow-calf operators surveyed under the Ontario Farm Management Accounting Project was 1.2 percent.

The cow-calf sector in Ontario is characterized by a large number of small herds. In 1986, the average herd size was 17 cows. As a result, total farmgate sales from cow-calf producers have been low. In 1986, the Ontario Farm Management Analysis Project showed average total revenue on cow-calf operations surveyed to be $33,441. On these farms, equity was found to be 89 percent. Therefore, low returns from Ontario cow-calf enterprises can be linked to the economy of scale of the operation. However, these features of the industry are not unique to Ontario. The cow-calf industry across North America is dominated by small-scale, part-time producers.

Another feature of the cow-calf industry is the small number of commercial cow-calf operators. These operators tend to be more specialized and are able to attain greater levels of efficiency than part-time farmers. However, the development of large-scale cow-calf production requires an abundance of pasture land. While northern and eastern Ontario have these resources, the availability of pasture land is limited in southwestern Ontario due to the competing alternative land uses.

The large number of part-time cow-calf producers impacts significantly on calf production in the province. In 1986, there were 20,975 farms which reported holding 420,954 beef cows and beef heifers for breeding. An additional five beef cows or beef heifers for breeding per farm would result in a 25 percent (or 105,238 head) increase over the 1988 breeding-cow inventories.

In 1974, the Ontario government implemented an incentive program entitled the Beef Heifer Improvement Program to increase cow-calf production in the province. This program was effective in promoting calf production. However, by 1976, calf production throughout North America had risen and in turn feeder-cattle prices across the continent fell.

Ontario producers were particularly hurt by these low prices since they had responded to the Beef Heifer Improvement Program by expanding production at too swift a rate. This experience demonstrated that the beef-cattle cycles and long production periods cannot be ignored in designing programs aimed at increasing production while maintaining reasonable profit margins.

In developing programs, consideration should also be given to constraints associated with GATT and national agreements; these give injured parties the right to seek countervailing duties or compensation against the impact of programs that distort production and/or markets.

The constraints imposed by the beef-cattle cycle and agreements have caused governments to design programs aimed at improving the productivity of cow-calf producers (e.g. calving rates, weaning weights and average daily gain) rather than influencing the level or regional distribution of production.

The recognition of the beef cattle cycle and the fluctuation of beef prices provide a major impetus for the formation of National Tripartite Stabilization (NTSP). In Ontario, the low participation rates in the cow-calf program make those not involved in the program particularly vulnerable to market down-turns.

The recommendations of the task force relating to the cow-calf industry are as follows:

22. **It is recommended that a successor to the Red Meat Program be developed for the beef industry, with a clear marketing component, aimed at further enhancing efficiency and productivity in the industry.**

23. **It is recommended that a plan be established under a successor to the Red Meat Program to encourage improvements in the Ontario beef cow-calf sector over a five-year period. The plan should have two components for: (a) capital expenditure, and (b) the number of animals weaned. The maximum payout under the**

capital expenditure component would not exceed $7,000 per producer over a five-year period. The maximum paid out under the second component would be $40 per animal weaned for producers registered under the National Tripartite Stabilization Program and $30 per animal weaned for other producers.

Participants in a successor to the Red Meat Plan should be encouraged to enroll in the National Tripartite Stabilization Program.

Criteria for capital expenditure component:

a) Capital grants would cover fencing at 60 percent and other capital items at 40 percent of the total capital cost of materials.

b) The plan would cover other items currently included in the Red Meat Program.

Note: Recommendations 38 and 40 also apply to the cow-calf sector.

Ontario Feedlots

Ontario feedlots are primarily supplied by feeder cattle from producers in Western Canada, Ontario and the U.S. Traditionally, Western Canada has supplied the greater proportion of the feeder cattle used by Ontario feedlots. In 1978, the number of feeder cattle moving from Western Canada into Ontario was 646,707 head. Since this period the number of feeder cattle moving from the West to Ontario has steadily declined.

By 1987, the number of feeder cattle shipped in from Western Canada had declined to 269,548 head, representing a 58 percent drop from the 1978 levels. This decline in feeder cattle coming from Western Canada has been the result of lower world grain prices and higher western grain inventories, changes in the Western Grain Transportation Act, as well as the implementation of a number of provincial programs, primarily in Saskatchewan and Manitoba.

Saskatchewan and Manitoba stabilization programs were implemented to provide producers with deficiency payments when the market price fell below a formula price. These deficiency payments in Saskatchewan have been high causing the program to incur a deficit of approximately $75 million to date. This program has consequently provided producers with an incentive to increase cattle production.

These two programs have resulted in lower cattle shipments to Ontario from Saskatchewan. In the case of Alberta, the implementation of the Crow Offset Program has also influenced the number of cattle shipped from Alberta into Ontario. Alberta has stated that the program was implemented to correct a distortion in grain prices.

The steady decline in cattle shipments from the West into Ontario feedlots has been, to a small degree, offset by greater U.S. imports. However, health regulations regarding bluetongue have limited the number of cattle being shipped

from the U.S. Recent changes to the regulation have provided for greater access to U.S. cattle for Ontario feedlot operations. There is, however, still a challenge faced by feedlot operators in acquiring sufficient feeder cattle.

Other developments throughout North America have also constrained the supply of feeder cattle available to Ontario feedlot operators and have created a major challenge for the industry to overcome in the future. The announcement that a major $40-million slaughter house is to be established in Alberta has suggested that the number of cattle coming to Ontario from Alberta will show an even greater decline in the future. In addition, the location of two large U.S. slaughtering plants in the northwestern region of the U.S. will encourage the feeding of more cattle in Western Canada.

Over the last 10 years, the increase in the weight of feeder cattle being offered for sale in Western Canada has also had a detrimental impact on the competitive position of Ontario feedlot operations[8]. The increase in the weight of feeder-cattle now being shipped from Western Canada has resulted in higher transportation costs for Ontario feedlots. These higher costs have limited profitability associated with feeding of western Canadian feeder cattle. Heavier feeder cattle are also more suited to western feedlots (based on grain feeding) compared with the feeding system (based on corn silage) in the Ontario feedlot sector. While Ontario tends to have higher finished-cattle prices than Western Canada, the increase in transportation costs has reduced the advantage Ontario has had in finishing cattle.

Production of grain corn and soybeans, as cash crops, has increased significantly in Ontario over the past few years. With farmers having viable alternatives to ensiling corn for beef-feeding purposes, and with the economic return to feeding cattle uncertain, many feedlots have been underutilized. Some feedlot operators

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[8] The trend towards the shipment of heavier feeder cattle from the West to Ontario has been primarily to reduce health problems.

have also become engaged in custom feedlot operations to fully utilize the facilities while not being exposed to all the market risk and requiring of the financial resources.

The profitability of Ontario feedlots has been affected positively by increased scale of production. The majority of the province's feedlots are relatively small and require less than full-time employment. Many operators would prefer to be full-time producers but are prevented by the size of their operation.

The recommendations developed by the task force relating to the Ontario feedlot sector are as follows:

24. **It is recommended that a successor to the Red Meat program be developed to encourage improvements in the Ontario feedlot sector. The program should include a central information system for the registration of feed conversion data as well as other production information. The plan should include a component for capital assistance aimed at encouraging the acquisition of feed scales.**

    Participants in a successor to the Red Meat program should be encouraged to join the National Tripartite Stabilization Program.

25. **It is recommended that accrual accounting be implemented for the livestock industry with an appropriate phase-in period for producers currently filing tax on a cash basis.**

Custom Feedlots

The custom-feedlot sector of the Ontario beef industry resembles the rest of the feedlot industry in facilities and production techniques. The difference is the separation of ownership of cattle from their care. In some cases, feedlot operators finish their own cattle as well as feed cattle on a custom basis for other owners. Custom feeding reduces the capital required by the feedlot operator because financing of all finished cattle is not required.

The custom-feeding industry in the U.S. Southwest and Western Canada is based on the same separation of ownership from day-to-day management of the cattle. However, custom feedlots in these areas tend to be large, specialized lots, often more than 100,000 head in the U.S. These feedlots can provide services including feeder cattle purchases, financial planning and risk management. The custom feedlots in Ontario tend to be smaller and farmer/feeder-oriented because this style of production is most suited to the local environment.

Whatever the size of the custom feedlot, the advantages to the feedlot operator are the same. The primary benefits are the reduction of financial risk and capital requirements. Second, custom feeding of cattle may reduce the facility's overhead cost per animal. A custom feedlot operation also provides an alternative method of marketing farm-crop production. For the feedlot operator not planning to own cattle, custom feeding can further provide both a market for the operator's skills in animal husbandry and rent for cattle facilities. However, to be successful, these operations must be efficient.

Alternatively, the cattle owner can benefit. A cattle producer with no facilities or unable to care for cattle can maintain an interest in the cattle business as well as gain farm tax status by custom feeding. The industry benefits by the additional capital commitment. Custom feeding can have a negative effect on the feedlot operator if the operator's financial position has deteriorated to the point where

cattle, and possibly other inputs, cannot be financed. In that case, the relative negotiating strengths of the two parties to the contract may result in a deal with little return to the feedlot operator.

It has been suggested that custom owners distort the feeder-cattle prices if owners are only in the business to gain through tax losses. This situation defies the rules of economics but may happen in some cases. Activity of this type is not a result of the availability of custom-feeding facilities but rather due to the option of filing taxes on a cash-accounting basis.

The recommendations developed by the task force relating to the custom-feedlot sector are as follows:

26. It is recommended that custom feedlots be recognized as a legitimate and viable production option for beef producers.

27. It is recommended that producer organizations and OMAF improve the information, data and research on the economic viability of custom-feedlot business.

28. It is recommended that custom-feedlot operators be recognized by producer organizations and OMAF as beef producers.

29. It is recommended that accrual accounting be implemented for the beef industry with an appropriate phase-in period for producers currently filing taxes on a cash basis.

Veal Sector

The veal sector primarily uses calves from the dairy sector in the production of red and white veal. In 1987, a total of 123,162 veal calves were slaughtered at federally and provincially inspected plants in Ontario. This represents a 14 percent drop from the previous year. Veal calves are also exported to the U.S. This trade is mainly associated with the white veal component of the sector. In 1987, per capita veal consumption was placed at 1.66 kg (or 3.66 lbs.), down from 1.76 kg (or 3.88 lbs.) in the previous year.

The recommendations developed by the task force relating to the veal sector are as follows:

30. **It is recommended that as part of a successor to the Red Meat Program, a plan be developed for the veal sector, with a clear marketing component and enhancing efficiency and productivity in the industry. (As in recommendation 22.)**

31. **It is recommended that as part of a successor to the Red Meat program a plan be developed to encourage improvements in the Ontario veal sector. The program should include a central information system for the registration of production information. The plan should include a component for capital assistance aimed at encouraging the acquisition of scales.**

Financing the Beef Industry

Beef production in Ontario is financed through equity from beef producers as well as borrowed capital. The equity position of producers in the industry can be divided into the two major groups relating to production – feedlot and cow-calf operators. Based on the Ontario Farm Management Analysis Project for 1986, feedlot operators' equity position was 64.6 percent compared with the equity position of cow-calf operators at 88.6 percent.

The cow-calf operators also have a high ratio position of 7.8 dollars of current assets to each dollar of current liability. Current liability accounts for approximately 15 percent of the total debt position of cow-calf operators in the province.

In comparison, feedlot operators have a current ratio of 1.95 dollars of current assets to each dollar of debt. Additionally, in 1986, the current liability share of total debt is approximately 53 percent of the total $252,576 of total liability for the farms recorded under the project. The high level of current liability compared with total liability has made Ontario feedlot operators particularly sensitive to interest-rate changes and changes in availability of capital for cattle purchases.

Cow-calf operators, owing to their strong equity position and low liability load, are less sensitive to interest-rate changes. The major difficulty, therefore, relates primarily to financing the feedlot operation.

The major debt incurred, by feedlot operators, relates to the purchase of feeder cattle for the ongoing production of slaughter animals. This debt is usually financed through a number of means which include loans from banks, agricultural suppliers and, in the case of custom feedlots, from clients. Other formal and informal arrangements are often made between feedlot operators and other participants in the agricultural industry to finance the purchase of feeder cattle.

The sensitivity of feedlot operators to changes in availability of capital and interest charges for use of this capital has been a limiting factor in development of the feedlot industry in the province. Additionally, the agreements established between producers and agricultural suppliers and other industry participants for the use of capital can limit the options available to producers.

In provinces such as Alberta, programs have been developed to improve availability of capital to feedlot operators at reasonable interest rates. Such a program has been implemented under the Alberta Feeder Association Guarantee Act. This enables feeder associations to be established to provide producers with loans for the purchase of feeder cattle. Purchased cattle are used as collateral for these loans. The loans extended by the feeder associations are also guaranteed by the provincial government. This program has been helpful in providing producers in Alberta with capital at reasonable interest rates.

Similarly, credit programs in Saskatchewan and Manitoba have assisted producers in those provinces in the purchase of feeder cattle. The success of these programs in Alberta, Saskatchewan and Manitoba could be duplicated by introducing similar programs or associations in Ontario.

The recommendation developed by the task force regarding financing of the Ontario beef industry is as follows:

32. It is recommended that the Ontario Cattlemen's Association, with the assistance of the Ontario Ministry of Agriculture and Food, establish an Ontario Feeder Association Financing Program, modelled on the Alberta Feeder Association Guarantees Act.

Note: The cow-calf sector portion of the report also covers financial issues in the beef industry.

Financial Protection

The Beef Cattle Financial Protection Program provides for the compensation of sellers at the 90 percent level in the event of default by licensed purchasers. The program has taken into account the domino effect of defaults involving sales from a licensed buyer or sales agency to another licensed buyer. Accordingly, auction markets and dealers are afforded protection when selling to a licensee. However, auction markets, Northern Stocker Feeder Sales, and dealers do not have protection when they sell to producers. This is of particular concern to the Northern Stocker Sales since a large segment of their consigned cattle are sold to producers.

These sales which are operated by producer cooperatives with little appreciable financial base are obliged to pay producers in accordance with the prompt payment standards of the program. Payment must be made within 48 hours and the soundness of the payment made by the purchaser has not always been determined within that time frame.

In order to avoid having their own cheques to consignors returned not sufficient funds (NSF), the cooperatives arrange for a short-term loan with a bank. If a licensed dealer defaults, they are covered by the program to a level of 90 percent and could remain solvent; but if a producer defaults, they are not covered and could be forced into a position of defaulting themselves on the bank loan. The directors of the sale (cooperative) could then be called upon by the bank to make personal restitution.

In addition to the practical problems of producer default, the selling agencies point out that in these transactions the regulations require that all parties to the transaction pay fees. The inequality of this system is that the consignors get the coverage benefit from paying fees, but the licensed agency does not if the purchaser is a producer.

The recommendation developed by the task force regarding financial protection is as follows:

33. It is recommended that the Beef Cattle Financial Protection Program be amended to provide coverage to licensed livestock dealers (Northern Stocker Sales, auction markets, dealers) when they sell cattle to producers. Additionally, producers for this purpose be deemed to be licensed and that protection be limited to 70 percent of the purchase price with the limit on any particular transaction being $50,000.00.

Taxation

Canadian income tax policy influences business decisions throughout the economy and encourages investment in various sectors. In the beef industry, these impacts have brought about mixed responses and have been greeted with varying levels of enthusiasm. On one hand, some producers have argued this policy has attracted needed capital into the industry. On the other hand, producers, filing on a cash basis, have often made inappropriate production decisions to reduce their taxable income.

Beef producers in Ontario have expressed varying views about the impact of the tax system on the industry. Nevertheless, there is general agreement that profit, rather than simply tax considerations, should guide business decisions in the beef industry (Appendix F).

In Ontario, an estimated 25,000 farmers use accountants and have been receiving accrual statements for management purposes and cash statements for tax purposes. As a result, many farmers have the necessary information to make prudent business decisions. Proposed changes to the Canadian tax system (i.e. tax reform) could have significant implications for the beef industry.

The recommendation developed by the task force regarding tax reform is as follows:

34. It is recommended that accrual accounting be implemented for the beef industry with an appropriate phase-in period for producers currently filing taxes on a cash basis.

Animal Welfare Issues

The concern of society with the issues of the welfare of farm animals and the wholesomeness of animal products constitutes a challenge as well as an opportunity for the beef industry.

Various initiatives have been undertaken by the beef industry, specifically:

- The Canadian Wholesome Animal Products Council
- Expert Committee on Farm Animal Welfare and Behaviour Canada
- Ontario Farm Animal Council
- Voluntary Codes of Practice for veal
- Livestock Markets' Association of Canada Good Handling Program
- Regulations for handling of animals in slaughter facilities
- Regulations for the transportation of animals

The recommendations developed by the task force relating to animal welfare are as follows:

35. **It is recommended that Ontario beef producers initiate the development of a voluntary Code of Practice for the care and handling of beef animals.**

36. **In the event that this national process cannot be started in the near future, it is recommended that the Ontario beef producers develop guidelines that can be used until such time as a voluntary Code is in place.**

Education and Research

Education and research are an important facet of the Ontario beef industry. Education and research efforts are needed in several areas of the Ontario beef industry from the cow-calf sector to the consumers of beef.

Cow-Calf Sector

At the cow-calf level, improvements in the genetics and productivity of the sector are dependent upon greater information being transmitted back to operators regarding the quality and desirability of the cattle produced. In order to transmit this information back to cow-calf operators, a system is needed to provide positive identification and indexing of beef carcasses. A central information system could be established under the Red Meat Program or its successor.

The system could build on the current Red Meat Program information and should include weight-gaining ability, ease of calving, mothering ability and calving interval. The system would further include efficiency of gain as well as carcass cutability and desirability. This information could then be relayed back to cow-calf operators to facilitate additional improvements in their herds. Further research will be necessary to fully implement a central information system based on electronic, positive identification of cattle (Appendix G). This identification of cattle is referred to as an I.D. chip.

There is a need for a positive identification system for cattle from birth to slaughter. Performance enhancement of the Ontario beef industry is partially dependent on improvements in the genetic base of beef-cattle herds. Cooperation of the various components of the industry, from processors to cow-calf operators, will be required to bring about the improvements necessary.

The processing and feedlot sectors are an integral part of this system, and indexing of carcasses has to be intertwined with positive identification so that information gained by an indexing of carcasses can be of value to cow-calf producers.

A successor to the Red Meat Program could include a central collection point for information from various sectors. The data could then be released for use by all the sectors of the industry.

For this system to be of maximum benefit, the majority of producers must be involved, whether large or small. There should be an incentive for producers to enrol their animals in the system and submit the necessary information. The processor should also be provided with an incentive to submit the carcass-evaluation information through the I.D. chip. This chip should become the basis for payment through an indexing system.

In most cases, feed-conversion data on specific animals in a feedlot cannot easily be collected. However, incentives could be provided to encourage feedlot and cow-calf operators to collect these data. Information collected and tabulated on feed conversion for a specific animal or groups of animals on a specific cow-calf operation would be transferred through the centralized information system back to the original cow-calf producer.

To facilitate participation in the central information system, an incentive program could be established for the purchase of feed scales by feedlot operators.

Eventually, it should be possible for feedlot operators to purchase calves from cow herds with an established index and feed-conversion information.

The recommendations developed by the task force relating to a positive identification system and index grading of cattle are as follows:

37. **It is recommended that a positive identification system for beef cattle be developed in the Ontario beef industry.**

38. **It is recommended that a positive carcass identification and index-grading system be implemented, when available, to ensure better product quality and to provide the basis for payment to the producer, based on carcass cutability and quality.**

Note: **Also refer to recommendation 5.**
Recommendations 39 and 41 also apply to the cow-calf sector.

Feedlot Sector

Producers in the feedlot sector are influenced by a combination of market and regulatory forces. In the marketplace, producers have a number of marketing channels (e.g. live auction, electronic auction, etc.) and marketing options (e.g. futures market).

Feedlot operators are affected by regulations relating to weighing, trimming and grading of beef carcasses. These forces have an impact on the returns of producers and production decisions. The financial position of the feedlot sector is also influenced by feedlot operators' knowledge of these forces.

Many of the concerns raised by feedlot operators regarding the marketplace and the regulatory system could be addressed through education and extension programs. In provinces, such as Alberta, detailed manuals are available describing different components of the beef industry.

Similar educational material could be developed and enhanced to reflect the extensive knowledge feedlot operators need in making market and production decisions. This material could also be valuable to producers considering the establishment or expansion of a beef-cattle enterprise.

The recommendations developed by the task force relating to education and research for the feedlot sector are stated below. These recommendations apply in part to the cow-calf sector.

39. **It is recommended that a program, with seminars and manuals, be established to educate producers on economic, business, financial management and marketing matters affecting the beef sector and general agricultural industry. The program should include material to meet the needs of producers with a varying level of knowledge on these topics.**

40. It is recommended that additional educational and extension programs be made available to provide producers with further information about slaughter-plant procedures as well as the standardization and monitoring of those procedures (e.g. trimming, weighing and grading). This would apply to cattle sold on a carcass-weight and grade basis.

41. It is recommended that a joint educational program between the beef industry and the Ontario Ministry of Agriculture and Food be implemented to provide producers with information on realistic costs and returns to labour, management and capital for various sizes of cow-calf, feedlot and integrated beef enterprises.

Packing and Processing Industry

The packing and processing industry has a tremendous impact on the quality of beef supplied to consumers and the market share of beef. The development of new technology and the availability of various production techniques (e.g. carcass electrical stimulation) can have an impact on the quality of beef produced.

The adaptation of the latest technology and production techniques in the packing and processing industry is essential for the expansion of beef sales in the marketplace. Adaptation is related to the viability and knowledge of the technology. As a result, the establishment of programs to assist in the development, dissemination and implementation of new meat-processing technology and production techniques are crucial for the long-term viability of the Ontario beef industry.

The recommendations relating to education and research in the packing and processing industry sector are as follows:

42. **It is recommended that packers be encouraged to employ methods which promote improved, consistent, and quality beef products to consumers.**

43. **It is recommended that a government program be developed to assist in the implementation of a beef carcass electrical stimulation system for beef-cattle slaughter facilities located in Ontario. (As in recommendation 4)**

44. **It is recommended that extension and educational programs be established to provide up-to-date information regarding technology, product development and meat-processing techniques to Ontario beef-processing plants.**

Consumers

Natural Beef:

A matter of considerable concern to the task force is the introduction of "natural beef" in the marketplace.

The task force endorses innovative marketing but is concerned that "natural" products have an overall detrimental effect on the consumers' perceptions of regular beef products.

Research indicates consumers are concerned about the safety of the product. Extensive testing indicates the total beef supply is safe and wholesome. As a result, it is misleading for the marketers of "natural" beef products to suggest that it is superior to conventional beef products.

The promotion of natural beef products has been generally based on the dissemination of negative claims. These proclamations have suggested the "natural" beef product contains no preservatives, chemicals or additives. Many of the claims for natural beef would apply equally to the beef product regularly purchased by consumers, but, nonetheless, do sway the health-conscious consumer towards natural beef consumption and, often, entirely away from beef. Natural beef has generally been able to provide consumers with a more aged product. The aging process can be done and provides taste benefits to most beef products, regardless of whether raised under the claims of natural or regular. These benefits have merits all their own and do not require advertising negative claims to promote the aged beef product.

Concerns about the claims and impact of the advertising techniques of natural beef merchandisers have resulted in the formation of a Canadian Wholesome Animal Products Council.

For marketers to suggest that "natural" products are superior to regular government-inspected products is misleading. The task force endorses the recommendations of the Canadian Wholesome Animal Products Council on this matter (Appendix H).

Furthermore, the task force commends OMAF for its initiative in pursuing new facilities to conduct commodity-residue testing designed to enhance consumer confidence in the quality and safety of Ontario's food supply.

U.S. No-Roll Beef:

U.S. "no-roll" beef ungraded imports are growing significantly and represent, to purchasers, a cost advantage. Yet the unknown quality and the alleged variability and inconsistency of the product potentially damage the image of quality Canadian-produced beef. In many instances, customers, particularly in the HRI trade, may unknowingly be sacrificing quality with a resultant loss of consumer satisfaction and loyalty to beef.

For the past two years, the Canadian and Ontario packing industry has been expressing concern about this situation and several industry/government discussions have been convened. While no concrete action has been forthcoming, the task force endorses ongoing efforts to find a solution.

Since Canadian-produced beef must be graded and stamped as a condition of interprovincial movement, it is suggested that Canada's beef suppliers (importers) should meet the same criteria.

The recommendations developed by the task force regarding no-roll beef are as follows:

45. **It is recommended that the Ontario Ministry of Agriculture and Food initiate an educational program on the merits of government-graded beef.**

46. **It is recommended that, since the federal government Boxed Beef Grade Monitoring Program provides assurance of the integrity of product in the box, Ontario boxing plants, the retail, and HRI trade be encouraged to adopt this program.**

47. **It is recommended that any Canadian beef imports must be graded and stamped.**

Beef Information Centre

The Beef Information Centre (BIC) was formed in 1974 to promote consumer research and educational programs on beef. The centre is a national service sponsored by beef producers through the Canadian Cattlemen's Association. The research programs of the BIC have identified major concerns of consumers regarding beef and other meat products at the grocery store. These have included:

a) consumer concerns about the production and processing methods of beef; and
b) fat levels and cholesterol in beef.

The BIC has been successful in providing consumers with educational programs and information as well as sponsoring advertisements aimed at easing these concerns. In addition, new findings on the desirable nutritional qualities of beef have been published by the BIC.

The recommendation developed by the task force regarding the Beef Information Centre was as follows:

48. It is recommended that the Beef Information Centre continue to provide its valuable services to the beef industry.

Federal-Provincial Programs

The increase in cattle production in Western Canada can be linked to changes in the Western Grain Transportation Act (WGTA) and the introduction of several provincial programs. Government programs have been developed at the federal and provincial levels to provide the beef industry with a variety of services and support.

The regional diversities and differences in the structure and production practices of the beef industry across Canada have caused government programs to vary among provinces. However, several common elements are present in programs offered in each province. The major programs influencing the beef industry can be categorized as follows[9].

1. Farm assessment procedures and property tax exemptions.
2. Consumption tax benefits.
3. Credit programs.
4. Livestock programs.
5. Stabilization programs.
6. Land improvement/development programs.
7. Training programs.
8. Other/ad hoc programs.

In 1986, the total federal and provincial government expenditures to the Canadian cattle industry were $150 and $134 million, respectively. Total funds allocated to the red meat sector in 1986 were $210 and $203 million in 1987. In the cattle industry, in 1987, total government expenditures accounted for less than 3 percent of total farmgate receipts earned.

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[9] Federal and provincial government expenditures based on Agriculture Canada, June 3, 1988, calculations for federal-provincial working group on red meats tripartite.

In the Atlantic provinces and Quebec, government expenditures have been particularly high. In 1986, the total funds provided to the cattle industry in Quebec were $52 million compared with total farmgate receipts of $292 million. In 1987, these expenditures dropped to $24 million with total farm gate receipts from the cattle industry in Quebec of $311 million. More than 95 percent of the funds paid to the cattle industry in Quebec came from that provincial government.

In Ontario, the total provincial and federal expenditures to the cattle industry in 1986 were $48 million compared with total cash receipts of $1,129 million. In 1987, expenditures declined to $37 million, while total cash receipts were $1,071 million. In 1986, provincial expenditures represented 85 percent of government expenditures to the cattle industry. In 1987, this percentage increased to 97 percent.

In Western Canada, the pattern of government transfers to the cattle industry has been influenced significantly by a number of provincial stabilization programs. This scenario is particularly apparent in Manitoba and Saskatchewan.

In Manitoba, total farmgate receipts from cattle sales in 1986 and 1987 were $294 million and $323 million, respectively. The participation of cattle producers in Manitoba in the provincial stabilization program has resulted in greater levels of producer payments than payouts in 1986 and 1987. The net effect of federal government programs on Manitoba producers was negative. In 1986, the total government expenditures to the Manitoba cattle industry was negative $6.8 million and, in 1987, negative $0.71 million. As a result, government programs in Manitoba have had a negative impact on beef producers total returns.

The government programs in Saskatchewan are similar in structure to those in Manitoba. However, the level of expenditures paid to the beef industry has exceeded the amount paid into the provincial program by producers. In 1986 and 1987, total government payments to the cattle industry were placed at $7 million and $25 million, respectively. Saskatchewan total farm gate receipts in 1986 were

$497 million and $566 million in 1987. In Alberta, the total amount of government payments to the cattle industry was $37 million in 1986 and $39 million in 1987. Total cash receipts in Alberta were $1,107 million in 1986 and $1,213 million in 1987.

The variation in the level of government expenditures to the cattle and calf industry across Canada has resulted in distortions in the pattern of production. A second problem, relating to the government expenditures to the cattle industry, has been the method of payment under a number of programs. Specifically, under the Special Canadian Grains Program of 1986 and 1987, corn silage was excluded from payment. As a result, the payments benefited producers of grain corn as opposed to the producers of corn silage.

In Ontario, cattle production is highly dependent upon corn silage production. Exclusion of corn silage from the Special Canadian Grains Program and homegrown, farm-fed grains from national stabilization programs under the Agricultural Stabilization Act (ASA) has provided an incentive to produce grain corn for cash sales and a disincentive to produce corn silage. Implicitly, this exclusion is a disincentive to beef-cattle production in the province.

The recommendations developed by the task force relating to government payments are as follows:

49. It is recommended that all federal and provincial assistance programs for grains apply to all grains regardless of the method of harvest or usage.

50. It is recommended that beef producers join the National Tripartite Stabilization Program.

51. It is recommended that the National Tripartite Stabilization Program (NTSP) Board examine the feasibility of altering the entry requirement of NTSP to facilitate greater enrollment but not at the expense of individuals currently registered in the program.

Beef Slaughter Cattle Marketing

In Ontario, beef slaughter cattle are marketed on the basis of live cattle sales as well as carcass grade and weight basis (i.e., rail grade basis). Market information is transmitted back to feedlot operators and cow-calf producers through the prices established in both these marketing channels. The consumer represents the final demand for beef. Assessing the value and quality of beef on a rail grade basis is more accurate than assessments made on a live basis. As a result, the marketing of cattle on a carcass grade and weight basis provides several advantages over a live cattle basis. These advantages are:

1. An improved correlation between beef producers returns and the value of carcasses being produced;

2. An improved transmission of market information and pricing signals back to the feedlot operator and cow-calf producer;

3. Improvements in on-farm production decisions and, as a result, an enhancement in the quality of beef cattle produced to meet market demand;

4. Reduced variability in the size and quality of beef cattle produced;

5. Increased direct shipments of cattle from feedlots to packing plants; and

6. Reduction in the level of dark cutters occurring in the Ontario beef industry.

The advantages in rail grade basis of cattle sales over the live market provide the beef industry with greater market efficiency. These efficiencies relate to a reduction in shipping and handling costs as well as other expenses associated with the sale of beef cattle. Therefore, the net return of producers would likely improve with the development of the capacity in the Ontario beef industry to market all beef slaughter cattle on a rail grade basis.

The sale of slaughter cattle on a rail grade basis would be facilitated by the existence of an index grading system. Currently, these sales take place without the presence of an index grading system for cattle. The rail grade basis for selling cattle would also complement the central information system recommended for the cow-calf sector.

The recommendation developed by the task force relating to the marketing of beef slaughter cattle is as follows:

52. It is recommended that the infrastructure be developed in the beef industry to enable the sale of all finished cattle on a carcass grade and weight basis in Ontario, within five years.

Market Structure and Performance

The market structure and performance of the Ontario beef industry have been a primary focus of debate for several years. The formation of a Beef Marketing Agency Commission in 1984 and the Ontario Beef Marketing Task Force in 1988 underscore the intensity of this debate. Similarly, the formation of the Ontario Beef Producers for Change, Inc., and the debate between this group and the Ontario Cattlemen's Association puts further focus on the issue of marketing.

Concerns about marketing in the beef industry have raised several issues, such as the level of returns, efficiency, land stewardship and the growth of market share. These concerns have been brought to the attention of producer organizations by their membership and to the task force by written submissions.

While the concerns about the beef industry market structure and performance are widely varied, they all lie between two positions or poles. These poles are: (a) efficiency (i.e. production to meet market demand at the lowest cost) versus (b) equity (i.e. production to maintain full-time operations for all in the industry).

The equity and efficiency debate is not unique to the beef industry. Agriculture and other industries have adjusted the market structure in various ways to achieve different balances between efficiency and equity (as defined above).

In the Ontario beef industry, the market structure and performance debate has often focused on the methods or market structure of selling slaughter cattle. These methods are community auction markets, private treaty, electronic auction and rail grade sales.

Slaughter-Cattle Market

The structure of the slaughter-cattle market has evolved out of the various needs and production characteristics of the beef industry. The range of cattle producers from part-time to full-time and from packer-owner to custom feedlot operators, has contributed to the diversification in selling methods. The attempts of producers and packers to reduce marketing costs and improve beef quality (e.g. lower bruising) have also had an impact on the market structure.

The quality of information generated by each of the selling methods is different. In the case of private treaty sales, efforts have been made to improve the quality of generated information by creation of a price-recording and reporting system. Market information systems have also been established for community auctions, OSY, electronic auction and listing-service sales. Market information is also generated through beef-cattle sales occurring in other provinces, the U.S., and other countries involved in beef trade.

Private treaty sales have been the primary focus of the debate on market performance in the Ontario beef industry. These sales have averaged 28 percent of total cattle slaughtered in the province between 1983 and 1987. The share of total cattle slaughtered sold through private treaty has varied only 2 percent, although there have been wide fluctuations in prices and cattle production over this period. Private treaty sales are characterized by both economic and personal commitment to a method of selling slaughter cattle.

The prices established under each of the marketing systems have been used as a proxy for examining the performance of each marketing system. However, differences in the services provided by each system make this comparison difficult to interpret. For instance, the prices established via private treaty sales may reflect producer preferences toward forward contracting, risk and even various marketing options. As a result, comparing the prices established through private treaty sales

and other marketing methods does not take into account all the considerations leading to the marketing decision and, in this sense, may be misleading.

Many of the written submissions and task force discussions focused on the private treaty method of marketing slaughter cattle. It has been suggested that private treaty sales should be banned to improve the market structure and performance of the beef industry. However, many of the concerns about private treaty sales could be addressed through improvements in the quality of information generated from these sales.

Total returns to producers would not likely be affected by banning private treaty sales, since producers can market their cattle by alternative-marketing options. Consequently, producers are now able to make decisions based on the competition between existing market alternatives and the maximization of net returns from cattle sales. The debate about the market structure and performance of the Ontario beef industry must address directly the balance between efficiency and equity.

The large number of producers and the correspondingly large number of packers – 19 federally inspected plants and numerous provincially inspected plants in the province -- would suggest that the bargaining power of producers to packers is relatively even. This relative position, however, is influenced by the need of producers to ship cattle when they have attained the approximate weight. On the other hand, the high, overhead cost of packers induces them to purchase cattle on a regular basis and volume to keep the plant in operation.

Studies conducted regarding the Ontario beef industry marketing system have revealed private treaty sales provide producers with marketing cost savings. However, the information generated and the relative bargaining power of some producers participating in private treaty sales represented a weakness of this marketing method.

The recommendations developed by the task force relating to the structure and performance of the slaughter-cattle market are as follows:

53. It is recommended that the OCA establish a market information tape on representative western Canadian and U.S. beef cattle markets as well as information on "boxed beef" and beef-product movement together with price trends.

54. It is recommended that the OCA develop an auditing system and improve the reporting system of the market information tape on private treaty sales to ensure the integrity of the information reported.

Beef Industry

Adjusting the market structure by banning private treaty sale for slaughter cattle may not ensure higher total returns to producers. However, the distribution of income among beef producers could be improved.

The debate of the beef industry market structure has been polarized. However, efficiency without equity or vice versa can lead to undesirable social consequences. For instance, if only efficiency is addressed, the profit margin in the industry may be too low to support all the producers entering or staying in the beef industry. On the other hand, if only equity is considered, market share will be lost, government costs could rise and the number of producers in the industry will eventually decline.

As a result, long-run viability of the beef industry is dependent on a balance between efficiency and equity. The Ontario Cattlemen's Association and the Ontario Beef Producers for Change, Inc., share different visions of this mix. Similarly, prominent economists such as Freidman and Galbraith also share different views.

Establishment of supply management boards has often been based on the argument that the relative bargaining power of producers had to be increased to counteract the considerable powers of processors[10]. If there is a high degree of rivalry in the processing sector, this may not be necessary. Therefore, the establishment of supply management in an industry is often aimed at also addressing several other concerns. These concerns relate to the level and rate of returns, number of producers in the industry, producers' share of consumers' expenditure on food and social issues.

Creation of grading programs for agricultural commodities assisted in improving the marketing and price discovery process for these commodities. Additionally, programs have been established to improve technological adoption in the agricultural sector. These efforts have been aimed at improving the efficiency of the industry.

Government and industry have worked together to adjust the market structure to establish a different balance between efficiency and equity in various sectors of the agricultural industry. Because of the links to other livestock and crop sectors, adjustments in the marketing structure will have an impact on the competitive position of the beef industry and profitability of other industries in Ontario and other provinces.

As a result, the regulating environment, national and international agreements restrict the market structure options of the beef industry. The beef industry has debated the market structure issue for several years without a resolution. The path the industry should take has been left uncharted. However, a decision is necessary for meeting the competitive challenges facing the industry.

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[10] A precursor for supply management is an inelastic demand curve, that is, a commodity with few important near-substitute products.

The decisions of the industry regarding the market structure should not restrict the implementation of the other recommendations of the task force.

The recommendations developed by the task force relating to the structure and performance of the beef industry are as follows:

55. **It is recommended that the producers of Ontario vote on whether they want a producer-controlled regulatory agency, with power to set prices based on the cost of production and set supply, or want to continue with the current market driven industry. OMAF should develop the wording of the vote in consultation with the Ontario Cattlemen's Association and the Ontario Beef Producers for Change, Inc., and OMAF should be responsible for conducting the vote.**

56. **It is recommended that the decisions of the Ontario beef industry regarding the market structure not restrict the implementation of the other recommendations of the Task Force.**

CONCLUSIONS

The mandate established by the task force was to assess the changing market needs and to investigate all marketing options. The objective of this investigation was to develop a plan of action aimed at achieving a long-term viable beef industry in Ontario. The task force developed 56 recommendations for this purpose. The recommendations will require effort from various segments of the beef industry, including government, to work cooperatively and take action.

The focus of the task force was marketing. As a result, the majority of the recommendations developed related directly to this issue. Many of these recommendations are interrelated. Action on one recommendation may have an impact on other recommendations.

The long-term viability of the Ontario beef industry will be enhanced by the unified effort exerted to address the challenges facing the beef industry. However, clear goals will be required and coordinated action will be necessary.

SUMMARY OF RECOMMENDATIONS

A. Industry Organizations

1. An Ontario Beef Industry council be established by the Minister of Agriculture and Food under the Ontario Beef Cattle Marketing Act.

   I. The purpose of the council be:

      a) to identify and address the concerns of each segment of the whole industry.

      b) to recommend programs aimed at the betterment of all in the beef industry.

   II. The council will meet at least on a quarterly basis.

   III. The council would be comprised of a total of 15 members, including the secretary. The members would represent the following segments of the industry:

      a) Northern stocker-feeder sales
      b) Feedlot operators
      c) Cow-calf producers
      d) Custom feedlot operators
      e) Veal producers
      f) Livestock dealers
      g) Provincially inspected slaughter and processing plants
      h) Federally inspected slaughter and processing plants
      i) Beef and veal purveyors
      j) Livestock auction markets
      k) Ontario Trucking Association
      l) Meat retailers
      m) Consumers
      n) Ontario Ministry of Agriculture and Food

   IV. The secretary of the council be appointed by the Ontario Ministry of Agriculture and Food.

   V. Appointments to the council be based on recommendations by each segment of the industry.

B. Ontario Packing Industry

2. It is recommended that a forum be established for producers, packers, processors and retailers to identify and address industry concerns on a regular basis (as in recommendation 1).

3. It is recommended that a government program be established to assist in (i) the upgrading of beef-cattle slaughter facilities and (ii) the development of new beef products in Ontario.

4. It is recommended that a government program be developed to assist in the implementation of carcass electrical stimulation systems in beef-cattle slaughter facilities located in Ontario.

C. Grading System and Standardized Procedures

5. It is recommended that an index-grading system for beef-cattle carcasses in the A category be immediately implemented for beef-cattle price settlement, in Ontario, and the A1 to A4 categories be eliminated. This system should be based on the current ruler-measurement techniques used in the industry.

6. It is recommended that action be taken to define optimum quality of a beef carcass in terms of: (1) fat cover, (2) cutability (yield) and (3) eating qualities, with a view toward defining the necessary specifications for Canada's top-beef grade.

7. It is recommended that probe technology be developed and implemented in the Canadian beef-cattle grading system, with an aim of moving towards an indexing system which addresses cutability, fat cover and quality (e.g. tenderness).

8. It is recommended that government livestock graders be rotated between slaughter plants in Ontario.

9. It is recommended that an improved auditing procedure, with a view towards ensuring uniform application of standards and procedures, be implemented in the federal beef cattle grading system.

10. It is recommended that there be compulsory grading of beef carcasses from cattle slaughtered in Ontario.

11. It is recommended that the Ministry of Agriculture and Food work with Agriculture Canada to provide an avenue of communication for grading staff which would facilitate handling concerns or requests for information by cattle producers on a timely basis.

12. It is recommended that, in the case of dark cutters, re-grading be done on the day following original grading.

13. It is recommended that emphasis be placed on reducing the incidence of dark cutters (based on current knowledge and research) and that further research be undertaken to reduce the occurrence of dark cutters.

14. It is recommended that an adequate level of inspection be provided to ensure effective enforcement of regulations under the Ontario Beef Cattle Marketing Act with respect to weighing cattle and carcasses, and trimming carcasses.

15. It is recommended that, for cattle sold on a carcass weight and grade basis, producers be provided with copies of the weigh ticket in addition to the grade certificate.

D. Ontario Stock Yards

16. It is recommended that the OSY operate on a self-sustaining basis, without government subsidies including interest-free loans. However, the government should continue to be responsible for real estate taxes. If a self-sustaining operation at the OSY cannot be achieved by June, 1992, then the OSY should be closed and the commission firms be left to find their own solutions. Additionally, the OSY should publish annual reports.

17. In the event that OSY is phased out, it is recommended that any funds generated from the sale of any part or all of OSY be used for programs to benefit the producer groups who paid for the facility.

    a) It is recommended that all monies from such sales be placed in a trust fund and only revenue from the fund be used. The revenue should be used to assist in the creation and development of a world-class Meat Centre at the University of Guelph. The "Centre" mandate would be to conduct research pertaining to various aspects of the meat industry.

b) It is recommended that the prospectus for the "Centre" would be developed by the University of Guelph and approved by an industry committee. The industry committees should consist of the Ontario Beef Industry Council along with representatives from the Ontario Pork Producers' Marketing Board and the Ontario Sheep Marketing Agency. The committee would give direction and focus to all the activities of the centre.

18. It is recommended that all cattle be weighed prior to sale and that all beef cattle returning to the farm be subject to veterinary inspection at the OSY.

Note: Recommendations 19 and 20 also apply to the OSY.

E. Community Sales Barns and Northern Stocker Sales

19. It is recommended that all public auction sale facilities provide accurate descriptions on a standardized basis regarding the conditions of cattle for sale at their facility. These descriptions should include information on: (1) date of arrival at facility, (2) period held without feed and water, (3) sold with or without guarantee of heifers being open, and (4) name of consignor.

20. It is recommended that all livestock auction markets with beef-cattle sales of (a) 10,000 head or more annually or (b) single sales of 1,000 head or more, install electronic weight and printing devices and weight display boards in the auction ring. Beef cattle are defined as all animals sold subject to a licence fee deduction under the Ontario Beef Cattle Marketing Act.

21. It is recommended that the Ontario government maintain and, if necessary, expand its support and commitment to the Northern Stocker Sales. The Ontario government should place special emphasis on: (1) the satellite sales; (2) the implementation of electronic scales, display and printing devices; and (3) the establishment of veterinary inspection at Northern Stocker Sales.

F. Ontario Cow-Calf Sector

22. It is recommended that a successor to the Red Meat Program be developed for the beef industry, with a clear marketing component, aimed at further enhancing efficiency and productivity in the industry.

23. It is recommended that a plan be established under a successor to the Red Meat Program to encourage improvements in the Ontario beef cow-calf sector over a five-year period. The plan should have two components for: (a) capital expenditure and (b) the number of animals weaned. The maximum payout under the capital expenditure component would not exceed $7,000 per producer over a five-year period. The maximum paid out under the second component would be $40 per animal weaned for producers registered under the National Tripartite Stabilization Program and $30 per animal weaned for other producers.

    Participants in a successor to the Red Meat Plan should be encouraged to enroll in the National Tripartite Stabilization Program.

    Criteria for capital expenditure component:

    a) Capital grants would cover fencing at 60 percent and other capital items at 40 percent of the total capital cost of materials.

    b) The plan would cover other items currently included in the Red Meat Program.

Note: Recommendations 38 and 40 also apply to the cow-calf sector.

G. Ontario Feedlots

24. It is recommended that a successor to the Red Meat program be developed to encourage improvements in the Ontario feedlot sector. The program should include a central information system for the registration of feed conversion data as well as other production information. The plan should include a component for capital assistance aimed at encouraging the acquisition of feed scales.

    Participants in a successor to the Red Meat program should be encouraged to join the National Tripartite Stabilization Program.

25. It is recommended that accrual accounting be implemented for the livestock industry with an appropriate phase-in period for producers currently filing tax on a cash basis.

H. Custom Feedlots

26. It is recommended that custom feedlots be recognized as a legitimate and viable production option for beef producers.

27. It is recommended that producer organizations and OMAF improve the information, data and research on the economic viability of custom-feedlot business.

28. It is recommended that custom-feedlot operators be recognized by producer organizations and OMAF as beef producers.

29. It is recommended that accrual accounting be implemented for the beef industry with an appropriate phase-in period for producers currently filing taxes on a cash basis.

I. Veal Sector

30. It is recommended that as part of a successor to the Red Meat Program, a plan be developed for the veal sector, with a clear marketing component and enhancing efficiency and productivity in the industry. (As in recommendation 22.)

31. It is recommended that as part of a successor to the Red Meat program, a plan be developed to encourage improvements in the Ontario veal sector. The program should include a central information system for the registration of production information. The plan should include a component for capital assistance aimed at encouraging the acquisition of feed scales.

J. Financing the Beef Industry

32. It is recommended that the Ontario Cattlemen's Association, with the assistance of the Ontario Ministry of Agriculture and Food, establish an Ontario Feeder Association Financing Program, modelled on the Alberta Feeder Association Guarantees Act.

Note: The cow-calf sector portion of the report also covers financial issues in the beef industry.

K. Financial Protection

33. It is recommended that the Beef Cattle Financial Protection Program be amended to provide coverage to licensed livestock dealers (Northern Stocker Sales, auction markets, dealers) when they sell cattle to producers. Additionally, producers for this purpose be deemed to be licensed and that protection be limited to 70 percent of the purchase price with the limit on any particular transaction being $50,000.00.

L. Taxation

34. It is recommended that accrual accounting be implemented for the beef industry with an appropriate phase-in period for producers currently filing taxes on a cash basis.

M. Animal Welfare Issues

35. It is recommended that Ontario beef producers initiate the development of a voluntary Code of Practice for the care and handling of beef animals.

36. In the event that this national process cannot be started in the near future, it is recommended that the Ontario beef producers develop guidelines that can be used until such time as a voluntary Code is in place.

N. Education and Research

Cow-Calf Sector

37. It is recommended that a positive identification system for beef cattle be developed in the Ontario beef industry.

38. It is recommended that a positive carcass identification and index-grading system be implemented, when available, to ensure better product quality and to provide the basis for payment to the producer, based on carcass cutability and quality.

Note: Also refer to recommendation 5.
Recommendations 39 and 41 also apply to the cow-calf sector.

Feedlot Sector

39. It is recommended that a program, with seminars and manuals, be established to educate producers on economic, business, financial management and marketing matters affecting the beef sector and general agricultural industry. The program should include material to meet the needs of producers with a varying level of knowledge on these topics.

40. It is recommended that additional educational and extension programs be made available to provide producers with further information about slaughter-plant procedures as well as the standardization and monitoring of those procedures (e.g. trimming, weighing and grading). This would apply to cattle sold on a carcass-weight and grade basis.

41. It is recommended that a joint educational program between the beef industry and the Ontario Ministry of Agriculture and Food be implemented to provide producers with information on realistic costs and returns to labour, management and capital for various sizes of cow-calf, feedlot and integrated beef enterprises.

Packing and Processing Industry

42. It is recommended that packers be encouraged to employ methods which promote improved, consistent, and quality beef products to consumers.

43. It is recommended that a government program be developed to assist in the implementation of a beef carcass electrical stimulation system for beef-cattle slaughter facilities located in Ontario. (As in recommendation 4)

44. It is recommended that extension and educational programs be established to provide up-to-date information regarding technology, product development and meat-processing techniques to Ontario beef-processing plants.

Consumers

45. It is recommended that the Ontario Ministry of Agriculture and Food initiate an educational program on the merits of government-graded beef.

46. It is recommended that, since the federal government Boxed Beef Grade Monitoring Program provides assurance of the integrity of product in the box, Ontario boxing plants, the retail, and HRI trade be encouraged to adopt this program.

47. It is recommended that any Canadian beef imports must be graded and stamped.

O. Beef Information Centre

48. It is recommended that the Beef Information Centre continue to provide its valuable services to the beef industry.

P. Federal-Provincial Programs

49. It is recommended that all federal and provincial assistance programs for grains apply to all grains regardless of the method of harvest or usage.

50. It is recommended that beef producers join the National Tripartite Stabilization Program.

51. It is recommended that the National Tripartite Stabilization Program (NTSP) Board examine the feasibility of altering the entry requirement of NTSP to facilitate greater enrollment but not at the expense of individuals currently registered in the program.

Q. Beef Slaughter Cattle Marketing

52. It is recommended that the infrastructure be developed in the beef industry to enable the sale of all finished cattle on a carcass grade and weight basis in Ontario, within five years.

R. Market Structure and Performance

Slaughter-Cattle Market

53. It is recommended that the OCA establish a market information tape on representative western Canadian and U.S. beef cattle markets as well as information on "boxed beef" and beef-product movement together with price trends.

54. It is recommended that the OCA develop an auditing system and improve the reporting system of the market information tape on private treaty sales to ensure the integrity of the information reported.

Beef Industry

55. It is recommended that the producers of Ontario vote on whether they want a producer-controlled regulatory agency, with power to set prices 2based on the cost of production and set supply, or want to continue with the current market driven industry. OMAF should develop the wording of the vote in consultation with the Ontario Cattlemen's Association and the Ontario Beef Producers for Change, Inc., and OMAF should be responsible for conducting the vote.

56. It is recommended that the decisions of the Ontario beef industry regarding the market structure not restrict the implementation of the other recommendations of the task force.

MEMBERS OF THE TASK FORCE

Eldon Brown	Producer representative
Jonathon Hook	Producer representative
Kevin Paton	Producer representative
Victor Wagemans	Producer representative
Martin Van Geffen, Jr.	Producer representative
John Verdonk	Producer representative
Lynne Cohoe	Custom Feedlot Operators
Stan Eby	Ontario Stock Yards Board
Jim Wideman	Community Auction Operators
Doug Lewis	Ontario Independent Packers & Processors Assoc.
Larry Campbell	Ontario Branch of the Canadian Meat Council
Douglas Kaufman	Country Dealers
Oliver Runnalls	Northern Stocker Feeder Cattle Sales Association
Ken Fisk	Acting Director, Livestock Inspection Branch, OMAF
Ken Knox	Director, Farm Products Marketing Branch, OMAF
Chairman:	Ken McDermid, Executive Director, Quality & Standards Division, OMAF
Secretary:	Gervan Fearon, Policy Advisor, Economics and Policy Coordination, OMAF

GUEST SPEAKERS TO TASK FORCE

1. Richard Caine, Senior Policy Advisor, Ontario Ministry of Agriculture and Food
2. Tom Crozier, Manager, Crop Insurance and Stabilization Branch, Ontario Ministry of Agriculture and Food, Toronto, Ontario
3. Ron Drain, Helming Group, Kansas, U.S.A.
4. David George, Executive Director, Advisory and Technical Services Division, Guelph, Ontario
5. Jonathon Goodman, Associate Consultant, Monitor Company, Toronto, Ontario
6. Kevin Grier, Supervisor, Food Processing Branch, Ontario Ministry of Agriculture and Food, Toronto, Ontario
7. Kathryn Hoffman, Red Meat Incentives and Performance Testing, Guelph, Ontario
8. Dr. Steve Jones, Research Station, Agriculture Canada, Lacombe, Alberta
9. Carolyn McDonell, National Coordinator, Beef Information Centre, Toronto, Ontario
10. Lloyd McLeod, Vice-President and General Manager, Fresh Meats Operation and Rendering, Canada, Packers, Toronto, Ontario
11. Ralph Macartney, Manager, Red Meat Incentives and Performance Testing, Guelph, Ontario
12. Dr. Larry Martin, Director, Department of Agricultural Economics and Business, University of Guelph, Guelph, Ontario
13. Roger Martin, Managing Director - Canada, Monitor Company, Toronto, Ontario
14. Dr. J.B. Morrissey, Assistant Deputy Minister, Food Production and Inspection Branch, Agriculture Canada, Ottawa, Ontario
15. John Nalivka, Helming Group, Kansas, U.S.A.
16. Dr. James Pettit, Director, Animal Industry Branch, Guelph, Ontario
17. Dr. Clare Rennie, Assistant Deputy Minister, Technology and Field Services, Ontario Ministry of Agriculture and Food, Toronto, Ontario
18. Bob Seguin, Director, Economics and Policy Coordination Branch, Ontario Ministry of Agriculture and Food
19. Dave Snyder, Regional Grading Standards Supervisor, Agriculture Canada, Ottawa, Ontario
20. Erna Van Duren, Department of Agricultural Economics and Business, University of Guelph, Guelph, Ontario

APPENDIX A

FEDERAL-PROVINCIAL PROGRAMS

APPENDIX A

FEDERAL-PROVINCIAL PROGRAMS

1. Beef Cattle Marketing Act

   The purpose of this act is to provide for the establishment and standardization of procedures affecting the sale of cattle and carcasses and for the designation and financing of the Ontario Cattlemen's Association. This financing is provided through a compulsory and non-refundable check-off on a per head basis of cattle sold for slaughter or beef production.

2. Livestock and Livestock Products Act

   This act is aimed at providing for the licensing and regulation of livestock dealers and for grading of livestock and livestock products. This legislation requires the licensing of dealers, including auction markets and slaughter plants, for beef cattle financial protection purposes.

3. Farm Products Payments Act

   This act provides for the establishment of funds for payment of compensation to unpaid producers of farm products. The Beef Cattle Protection Program is established under this act. The program provides producers and other sellers of cattle with compensation from the fund in the event of default by licensed purchasers.

4. Meat Inspection Act

   This act provides the powers for inspection of animals and carcasses in slaughter plants and to regulate plant conditions and methods of operation. It also has application to meat processing operations within such plants.

5. Live Stock Community Sales Act

This act provides for the regulation of live stock community sales, including the licensing of operators of such sales. Provisions under the act embrace requirements pertaining to the structural and sanitation of sale facilities, veterinary inspection of livestock, and bonding of sale operators.

6. Stock Yards Act

The act establishes the Ontario Stock Yards Board and defines its powers and duties. The Board manages the stock yards and ensures compliance with the requirements of the federal Live Stock and Live Stock Products Act which also has application to this terminal market.

7. Farm Products Grades and Sales Act

This legislation provides for the inspection, grading, packing and marketing of farm products. Authority for the grading of beef and veal is found under this act.

8. Farm Income Stabilization Act

This act provides the powers to collect premiums and make payments to producers enrolled in a plan with respect to marketing farm products in times of low prices. This act is the provincial complement to the Agricultural Stabilization Act at the federal level.

9. Other Acts
   - Ministry of Agriculture and Food Act
   - Artificial Insemination of Livestock Act
   - Dead Animal Disposal Act
   - Dog Licensing and Livestock and Poultry Protection Act

Federal Regulations

The federal government regulations impacting the Ontario beef industry generally apply to all or most of the other provinces in the country. These regulations relate to:

1. Quality Assurance and Food Safety of Food
2. Animal Health
3. Stabilization Program
4. Livestock Feed Assistance Act
5. Other Acts
6. Meat Import Act
7. Special Measures Act

1. Quality Assurance and Safety of Food

   The acts included in this area are: a) Canadian Agricultural Products Act, b) Meat Inspection Act, c) Food and Drugs Act, d) Consumer Products Act, and e) Weights and Measures Act. These acts are aimed at enhancing the marketability of food and agricultural products by ensuring their safety, wholesomeness, quality (grade) and accurate labelling.

2. Animal Health

   The acts involved in this area are: a) Animal Disease and Protection Act b) Humane Slaughter of Food Animals Act and Regulations, and c) Pesticide

Residues Compensation Act. The objective of these acts and regulations is to maintain a healthy Canadian livestock population. Under the Animal Disease and Protection Act and Regulations, U.S. feeder and slaughter cattle entering Canada must meet specific health standards in order to protect Canadian beef and dairy herds against "reportable" diseases. The importation requirements for bluetongue also protect sheep against this diseas.

3. Stabilization Program

Two federal acts are available for the stabilization of agricultural commodities. These are: a) Agricultural Products Act, and b) Agricultural Stabilization Act. Additionally, the Western Grain Stabilization Act (WGSA) has an indirect impact on the Ontario beef industry. The aim of the Agricultural Products Act is to stabilize the price of agricultural commodities through the purchase and sale of surplus commodities in times of depressed prices, or any other purpose approved by the Governor in Council. The purpose of the Agricultural Stabilization Act is to stabilize prices to maintain a fair relationship between prices received and cost of goods and services, and to assist the industry in realizing fair returns for its labour and investment.

4. Livestock Feed Assistance Act

This act is aimed at increasing central and eastern Canadian livestock production. More recently, the act has been used to encourage feed grain production in feed deficit regions.

5. Other Acts
   - Department of Agriculture Act
   - Livestock Pedigree Act
   - Feeds Act
   - Hay and Straw Inspection Act

Meat Import Act

The Canadian Meat Import Act regulates the importation of fresh, chilled and frozen beef and veal. This regulation was put in place in February 1982. The objective of the act is to provide quotas on the importation of beef and veal based upon a quantitative calculation. These calculations are based on the Canadian imports of fresh, frozen or chilled beef and veal during the period of 1971 to 1975.

The base level of imports for 1971 to 1975 is then adjusted on an annual basis to reflect changes in domestic disappearance of beef and veal as well as to account for a counter-cyclical adjustment relating to Canadian production of beef for manufacturing. Other adjustments to the quantity may be made by the Minister on the basis of considerations such as the supply and price of meat in Canada as well as other trade considerations.

The Minister is prohibited from establishing a quantitative restriction that is less than the minimum global access commitment agreement made by Canada and other countries.

Special Import Measures Act

A Special Import Measures Act is administered by the Department of National Revenue, Customs and Excise, and the Canadian Import Tribunal. Under this act, a complaint can be put forth regarding a country's dumped or subsidized beef exports into Canada. These complaints must also demonstrate that the industry has incurred material injury. These complaints are investigated and a determination of evidence of injury is made. In cases where material injury is found, countervailing duties can be put in place.

In June of 1984, the Canadian Cattlemen's Association filed complaints charging that the EEC subsidized boneless beef exports to Canada. This action was taken under the Special Import Measures Act.

APPENDIX B

FREE TRADE AGREEMENT

ARTICLES 704 AND 708

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FREE TRADE AGREEMENT

Article 704: Market Access for Meat

1. Neither Party shall introduce, maintain or seek any quantitative import restriction or any other measure having equivalent effect on meat goods originating in the territory of the other Party except as otherwise provided in this Agreement.

2. If a Party imposes any quantitative import restriction on meat goods from all third countries, or negotiates agreements limiting exports from third countries, and if the other Party does not take equivalent action, then the first Party may impose quantitative import restrictions on meat goods originating in the territory of the other Party only to the extent and only for such period of time as is sufficient to prevent frustration of the action taken on imports of the meat goods from third countries. The Party contemplating the action shall notify the other Party and provide an opportunity to consult prior to taking action pursuant to this paragraph.

Article 708: Technical Regulations and Standards for Agricultural, Food, Beverage and Certain Related Goods

1. Consistent with the legitimate need for technical regulations and standards to protect human, animal and plant life and to facilitate commerce between the Parties, the Parties shall seek an open border policy with respect to trade in agricultural, food, beverage and certain related goods and shall be guided in the regulation of such goods and in the implementation of this Article and the Schedules contained in Annex 708.1 by the following principles:

a) to harmonize their respective technical regulatory requirements and inspection procedures, taking into account appropriate international standards, or, where harmonization is not feasible, to make equivalent their respective technical regulatory requirements and inspection procedures;

b) to apply any import or quarantine restriction on the basis of regional rather than national distribution of diseases or pests in the territory of the exporting Party, where such diseases or pests are distributed regionally rather than nationally;

c) to establish equivalent accreditation procedures for inspection systems and inspectors;

d) to establish reciprocal training programs and, where appropriate, to utilize each other's personnel for testing and

inspection of agricultural, food, beverage and certain related goods; and

e) to establish, where possible, common data and information requirements for submissions relating to the approval of new goods and processes.

2. The Parties shall, with respect to agricultural, food, beverage and certain related goods:

a) work toward the elimination of technical regulations and standards that constitute, and prevent the introduction of technical regulations and government standards that would constitute, an arbitrary, unjustifiable or disguised restriction on bilateral trade;

b) exchange information, subject to considerations of confidentiality, related to technical regulations, standards and testing; and

c) notify and consult with each other during the development or prior to the implementation or change in the application of any technical regulation or government standard that may affect trade in such goods.

3. Where, for agricultural, food, beverage and certain related goods other than animals:

a) the Parties have harmonized or accepted the equivalence of each other's inspection systems, certification procedures or testing requirements, and

b) the exporting Party has, pursuant to such systems, procedures or requirements, determined or certified, as the case may be, that such goods meet the standards or technical regulations of the importing Party,

the importing Party may examine such goods imported from the territory of the exporting Party only to ensure that (b) has occurred. This provision shall not preclude spot checks or similar verifying measures necessary to ensure compliance with the importing Party's standards or technical regulations provided that such spot checks or similar verifying measures, including any conducted at the border, are

conducted no more frequently than those conducted by the importing Party under similar circumstances with respect to its goods.

4. To further the implementation of this Article and the Schedules contained in Annex 708.1:

a) the Parties shall establish the following working groups, each with equal representation from each Party:

i) Animal Health,
ii) Plant Health, Seeds and Fertilizers,
iii) Meat and Poultry Inspection,
iv) Dairy, Fruit, Vegetable and Egg Inspection,
v) Veterinary Drugs and Feeds,
vi) Food, Beverage and Colour Additives and Unavoidable Contaminants,
vii) Pesticides, and
viii) Packaging and Labelling of Agricultural, Food, Beverage and Certain Related Goods for Human Consumption;

b) these working groups shall:

i) meet at the request of either Party, but in any event not less than once a year unless the Parties otherwise agree, to further the implementation of this Article and the Schedules contained in Annex 708.1 or to address other issues as they arise, and

ii) inform the joint monitoring committee of their work; and

c) the Parties shall establish a joint monitoring committee, with equal representation from each Party, which shall meet at least annually and which shall:

i) monitor the progress of the working groups to ensure the timely implementation of this Article and the Schedules contained in Annex 708.1, and

ii) report the progress of the working groups to the Minister of Agriculture for Canada and the Secretary of Agriculture for the United States of America and such other Ministers or Cabinet-level officers as may be appropriate and to the Commission referred to in Chapter Eighteen (Institutional Provisions).

APPENDIX C

INDUSTRY ORGANIZATIONS

APPENDIX C

INDUSTRY ORGANIZATIONS

Ontario Cattlemen's Association (OCA)

The objectives of the OCA are:

- to promote improvements in the quality of the beef cattle produced in Ontario;
- to interact with government regarding legislative programs pertaining to the beef cattle industry;
- to promote the consumption of beef in cooperation with other provinces;
- to promote the development of sale and export of agricultural products; and
- to provide educational opportunities relating to agriculture and rural life.

The OCA also provides a wide range of information and educational services to producers. The association also operates a market information system which records and reports approximately 80 percent of the total slaughter and feeder cattle sales made at auction markets. Information is also provided on private treaty sales through a telephone-recording system.

The Ontario Beef Producers For Change (OBPFC)

The objective of the OBPFC is to create an Ontario all industry beef commission which will supply the consumer with adequate supply of quality beef at a reasonable price. A second objective is to stabilize beef prices at a level sufficient to give the producer a more equitable return to labour, management, and investment.

This commission would maintain and improve all educational, promotional, product improvement and market information services presently in place. The commission structure would be effectively used to improve quality and productivity with all beef industry participants.

The Canadian Cattlemen's Association (CCA)

The CCA's objective is similar to that of the OCA. However, the CCA provides a national level of representation for beef producers throughout Canada. The provincial cattlemen's associations also have representation in the national body. Activities in which the CCA has been involved include the action against the EEC in terms of subsidized beef imports into Canada. Additionally, the CCA represents a major lobby group on behalf of producers to present their position on a wide range of issues to both government, the public and the industry.

The Canadian Meat Council (CMC)

The objective of the CMC is to represent the meat processing industry throughout Canada. The council was formed in 1919 and has strived for high standards in the meat industry. The CMC represents approximately 80 percent of the total federally inspected, meat-production facilities in Canada. The CMC represents the major activities of the meat processors in terms of representing their objectives to industry, government and the public.

Ontario Independent Packers and Processors Association

The Ontario Independent Packers and Processors Association represents small, independent establishments in the province. The objective of this organization is:

1. To work with producers to educate them in the needs of packers and consumers.

2. To work with plant operators to educate them on the upgrading of plant facilities and new processes.

3. To work with consumers and all commodity groups to promote Ontario agriculture and food products.

4. To work with the Ontario Ministry of Agriculture and Food to keep plant facilities and operators in good relations with plant inspectors.

Canadian Beef Information Centre (BIC)

The objective of the Beef Information Centre is to promote beef throughout Canada. This is done through a wide range of promotional activities, advertisement and educational programs. These programs are extended to consumers, retailers, producers and packers, government and other participants engaged in the beef industry. An example of the activities of the Beef Information Centre is the Jack Spratt commercial, which has been promoted throughout most of Canada. The centre has also been engaged in a host of research projects aimed at improving the information available on the quality of beef.

APPENDIX D

LIST OF WRITTEN SUBMISSIONS

BRIEFS SUBMITTED TO

BEEF MARKETING TASK FORCE

1.	UNIT MANAGERS	Walkerton
2.	GREY BRUCE LIVESTOCK CO-OPERATIVE	Lion's Head
3.	HAROLD M. CARROLL	Wardsville
4.	SHEPHERDSON FARMS LTD.	New Liskeard
5.	WELLINGTON COUNTY CATTLEMEN'S ASSOCIATION	Guelph
6.	SPRING GRANGE FARM	Woodville
7.	ALAN CARROLL	West Lorne
8.	DUNDAS CATTLEMEN'S ASSOCIATION	Morrisburg
9.	KEN FILLMORE	Dutton
10.	CHRISTINE & ANDIO BRAZEAU	Thornloe
11.	H.J. HAMMOND	Sundridge
12.	ROBERT WESTON	Sydenham
13.	HUGH PEACOCK	Oshawa
14.	LAMBTON CATTLEMEN'S ASSOCIATION	Petrolia
15.	THE RENFREW COUNTY CATTLEMEN'S ASSOCIATION	Golden Lake
16.	D.R. McDONALD	Toronto
17.	CANADIAN MEAT COUNCIL	Islington
18.	JACK FLANAGAN	Dublin
19.	HURON COUNTY CATTLEMEN	Dublin
20.	ONTARIO SHEEP MARKETING AGENCY	Toronto
21.	SHELTER VALLEY FARMS	Omemee

22.	UNITED CO-OPERATIVES OF ONTARIO	Mississauga
23.	DUGALD ALDRED	West Lorne
24.	CARL McLEOD	Dutton
25.	JOHN ALDRED	West Lorne
26.	KENT COUNTY CATTLEMEN'S ASSOCIATION	Kent Bridge
27.	THE ELGIN BEEF MANAGEMENT CLUB	Southwold
28.	THE ELGIN CATTLEMEN'S ASSOCIATION	Dutton
29.	B.R. McGILL	West Lorne
30.	TONY WILLEMSE	Parkhill
31.	DON McFARLANE	Lambeth
32.	ROSS DUFF	Croton
33.	MICHAEL BROWN	Shedden
34.	LESLIE McFARLANE	Lambeth
35.	SCOTT BROS. FEEDLOT	Thedford
36.	WILLIAM D. McALPINE	Glencoe
37.	TORONTO LIVESTOCK EXCHANGE	Toronto
38.	KINCARDINE SHIPPERS ASSOCIATION	Kincardine
39.	BRUCE COUNTY CATTLEMEN'S ASSOCIATION	Kincardine
40.	ONTARIO FEDERATION OF AGRICULTURE	Toronto
41.	RIVERSIDE PORK & POULTRY FARMS	Walkerton
42.	BETTER BEEF LIMITED	Guelph
43.	JOSEPH SZENTIMREY	Branchton
44	JAMES CUDNEY	Thamesville
45.	HAROLD KLAGES	Desboro
46.	WILLIAM CREIGHTON	Smithville
47.	SOUTHWESTERN ONTARIO STOCKYARDS LTD.	Melbourne

48.	SMITH BROS. FARMS LIMITED	Stayner
49.	WILSON'S FARMS	Vankleek Hill
50.	A.P. VERWER	Lakeside
51.	ONTARIO LIVESTOCK AUCTION MARKET ASSOCIATION	Melbourne
52.	ONTARIO STOCK YARDS	Toronto
53.	ADRIAN DORTMANS	Strathroy
54.	WILLIAM DORTMANS	Strathroy
55.	DORTMANS BROS.	Strathroy
56.	PETER VAN BOEKEL	Innerkip
57.	RUSSELL COUNTY CATTLEMEN'S ASSOCIATION	Hammond
58.	STAN BRIEN	Ridgetown
59.	ONTARIO CATTLEMEN'S ASSOCIATION	Toronto
60.	PETERBOROUGH COUNTY CATTLEMEN'S ASSOCIATION	Peterborough
61.	JAS. W. GARDINER & SONS LIMITED	Kirkton
62.	DOUG VOLLMERSHAUSEN	Innerkip
63.	TOM VANRABAEYS	Thamesville
64.	CONKEY FARMS LIMITED	Strathroy
65.	ROGER MITCHELL	Owen Sound
66.	JAMES B. McLELLAN	No Address
67.	RAY K. MULLINS	No Address
68.	JAMES NICHOLS	Mitchell
69.	DURHAM EAST CATTLEMEN'S ASSOCIATION	Bowmanville
70.	MR. & MRS. ROBIN SPRATT	Badjeros
71.	MILDRED COCKING	Fisherville
72.	LEO DENOMME	Englehart

73.	GERALD BROSS	Mildmay
74.	WILLIAM G. JOHNSTON	Flesherton
75.	TEMISKAMING CATTLEMEN'S ASSOCIATION	New Liskeard
76.	HARRY STRAATMAN	Watford
77.	VEENSTRA VENTURES "METCALFE" LTD.	Kenwood
78.	R. COCKING	Fisherville
79.	RIVERSIDE POULTRY FARMS	Walkerton
80.	GEORGE WEBER	Chesley
81.	LARRY GARDINER	Staffa
82.	R.E. SPONAGLE	Thornton
83.	A CONCERNED AND INFORMED CITIZEN	Ontario Stock Yards
84.	NATIONAL FARMERS UNION	Ottawa
85.	NATIONAL FARMERS UNION	Ottawa
86.	NATIONAL FARMERS UNION	Beachburg
87.	HALDIMAND CATTLEMEN'S ASSOCIATION	Hagersville
88.	GAMBLE & ROGERS LIMITED	Toronto
89.	HOWARD CAMERON	Watford
90.	FRED AND JOHN O'NEIL	Watford
91.	MARTIN SCHNECKENBURGER	Morrisburg
92.	DALE E. TAYLOR	Creemore
93.	DOUGLAS A. GREENWOOD	Thamesville
94.	MTM StOCK FARMS	Millbrook
95.	ROBERT LIVINGSTON	Elmwood
96.	EUGENE & IVY DORAN	Tweed
97.	MRS. S. PRATT	Barrie

98.	DOUGLAS MEYERS	Conn
99.	NORMA B. HIRST ROSE	Vankleek Hill
100.	VINA SPEZIALI	Paisley
101.	THAMES SALES YARD	Thamesville
102.	SAM LMON	Markdale
103.	HALDIMAND & DISTRICT WEIGH CLUB	Cayuga
104	MRS JACQUELINE CONNOLLY	Mitchell
105.	DOUGLAS FRANCIS	Mitchell
106.	HERBERT L DEITRICH	Agatha
107.	CASEY WILLEMSE	Parkhill
108.	KEVIN F FRIEBURGER	Elmwood
109.	DANNROVING FARM	Palmerston
110.	R W PLETSCH	Clifford
111.	MILTON MCARTHUR	Stayner
112.	A JERRY	Feversham
113.	FREIBURGER FARMS LTD.	Walkerton
114.	MRS ALICE M GIBSON	Yarker
115.	EVAN KEITH	Lucknow
116.	MAE S GOVENLOCK	Seaforth
117.	J D HALDANE,	Moonbeam
118.	DR G H BOWMAN	Guelph
119.	REGIS A DION	Winchester
120.	LORNE BOLGER	No Address
121.	MIDDLESEX CATTLEMEN'S ASSOCIATION	Komoka
122.	MACK MULLINS	Melbourne

123. GEORGE UNDERWOOD	Wingham
124. VANDERHAM FARMS LTD	Holland
125. COLIN LAMONT	Mont Brydges
126. ROYDEN CLARK	Palmerston
127. GRAY VALLEY FARMS	New Liskeard
128. BURTHLENE FARM	Mt Hope
129. DAVID J. MCKINNON	Holyrood
130. RENFREW COUNTY MILK COMMITTEE	Renfrew
131. WM C LONGSTAFF	Belleville
132. ROBERT PAYNE	Port Lambton
133. JOHN EDWARDS	Stroud
134. ROBERT J KETCHUM	Port Stanley
135. WHITNEY EDWARDS	Markdale
136. JOHN F. CRAWLEY, D.V.M. Ph.D.	Guelph
137. HOWARD RIBEY	
138. KENNETH W JOHNSON	Port Lambton
139. FRANK CURLEY	Tara
140. DAVIS BEEF FARMS LTD.	Dobbinton
141. SAUGEEN VALLEY FARM	Durham
142. TOM HUNTER	Hagersville
143. GLENN MILLS	Englehart
144. GRAHAM'S RED ANGUS	St Marys
145. WEBB SLACK	Hagersville
146. MAC & MARGARET SMITHRIM	Strathroy
147. FRANK VANDER VLOET	Parkhill

148. RALPH TARR	Harriston
149. LARRY FRIELIEGER	Elmswood
150. BEV R. WATSON	Priceville
151. RONALD W. HILL	Markdale
152. DANA LEE FARM	Hagersville
153. KENNETH & FREDA MCKINNON	Port Elgin
154. ERNA VAN DUREN	Guelph
155. WAYNE SCHWANDT	Tiverton
156. KENNETH WEIR	Ilderton
157. LLOYD & KEN SMITH	Wyoming
158. SUNNYHILL FARM	Watford
159. BLACKBERRY FARM	Belleville
160. WM WHITE	Mount Forest
161. REIDHOLM ANGUS	Moorefield
162. STANLEY BRUNTON	Ashton
163. BELLDOON FARMS LTD	Iona Station
164. GEORGE FRIEBURGER	Walkerton
165. D.W. WEYLIE	Mount Hope
166. MENARD PALHOUF	
167. ROBERT WILSON	Vankleek
168. JIM BUCKNALL	Campden
169. ROGER LAMONT	Owen Sound
170. BRUCE MINER	Natford
171. ROSS JOHNSON	Badjeros
172. JAMES W EVANS	New Hamburg
173. WILLIE & LIO TOONER	Parkhill

174.	PETER MYKYTYN	Rainy River
175.	RAY HOOVER	Selkirk
176.	DON EADIE	Wingham
177.	NEIL C SMITH	Orono
178.	LARRY POWELL	Hagersville
179.	MUSKOKA-NIPISSING-PARRY SOUND CATTLEMEN'S ASSOCIATION	Magnetawan
180.	DONALD C. ROSS	Holstein
181.	ED TUCKER	Charlton Station
182.	KEITH BROWN	Tupperville
183.	HILL FARMS	Owen Sound
184.	ARTHUR W HUFFMAN	Blenheim
185.	LEONARD MANION	Priceville
186.	CHRIS VANDER VLOET	Parkhill
187.	GORDON FREW	Norwich
188.	HACK FARMS	Kincardine
189.	SIGNATURE NOT LEGIBLE	
190.	VELMA LOWE	Meaford
191.	CERICOLA FARMS LTD.	Newmarket
192.	RON & CINDY KRAAYENBRINK	Port Lambton
193.	ARLEY LEADER	Dundalk
194.	CHARLES BLACK	Priceville
195.	JOHN & INA KRAAYENBRINK	Port Lambton
196.	PERTH COUNTY CATTLEMEN'S ASSOCIATION	Granton
197.	DALE EAGLES	Ravenna
198.	KENNETH R CONLEY	Kerwood

199.	W MITCHELL	Brigden
200.	TIM THOMPSON	Williamsburg
201.	THE ONTARIO MILK MARKETING BOARD	Mississauga
202.	CURTIS W. DETTMAN	Clifford
203.	KEN WATSON	Priceville
204.	DENNIS GAGNE	Hammond
205.	DONALD STOBO	Teeswater
206.	MYLES O'DONOGHUE	Teeswater
207.	ANTON GOLOBIC	Proton Station
208.	ONTARIO BEEF PRODUCER FOR CHANGE INC.	St. Marys
209.	THE CANADIAN BANKERS' ASSOCIATION	Toronto
210.	GREY COUNTY CATTLEMEN'S ASSOCIATION	Owen Sound
211.	HALDIMAND/NORFOLK/NIAGARA NORTH NIAGARA SOUTH RED MEAT WEIGH CLUB	Hagersville
212.	DOUG, BARRY AND BRIAN JEBB	Cookstown
213.	MARCEL BISSON	Navan
214.	M. McTAGGART & H. PEART	
215.	DON & LIZ STOBO	Teeswater
216.	MYLES O'DONOGHUE	Teeswater
217.	AL McDONALD	Teeswater
218.	JOHN A. CLARK	Paisley

APPENDIX E

ROUTE TO MARKET FOR CATTLE SLAUGHTERED IN ONTARIO, 1983-1987

Route to Market for Cattle Slaughtered in Ontario

	1983	%	1984	%	1985	%	1986	%	1987	%
Federal Slaughter	951,773	86.2	827,261	84.3	839,729	83.6	872,795	84.2	802,751	85.0
Provincial Slaughter (graded)	31,678	2.9	42,364	4.3	59,317	5.9	61,708	6.0	57,982	6.1
Provincial Slaughter (ungraded)	120,637	10.9	112,157	11.4	104,869	10.4	101,457	9.8	83,396	8.8
Total Inspected Slaughter	1,104,088	100.0	981,802	100.0	1,003,915	100.0	1,035,960	100.0	944,109	100.0
Change from previous yr.		-3.0%		-11.1%		+2.3%		+3.2%		-8.9%
Via Community Auction	332,746	29.0	312,768	30.5	315,233	30.1	310,468	29.3	275,789	28.6
Via Toronto Stockyards	364,579	31.8	313,753	30.6	294,782	28.2	272,597	25.7	201,797	20.9
Via Electronic Auction	33,637	2.9	70,946	6.9	75,146	7.2	77,279	7.3	100,679	10.4
Via Toronto Railgrade Sale	–	–	–	–	–	–	–	–	14,650	1.5
Via Truck & Rail from West	22,221	1.9	40,752	4.0	15,075	1.4	35,373	3.3	53,881	5.6
Imported from U.S.A.	69,971	6.1	19,061	1.9	45,439	4.3	44,476	4.2	58,244	6.0
Sub Total	823,154		757,280		745,675		740,193		705,040	
Exported to U.S.A.	43,336		42,808		42,262		24,107		19,940	
Marketed Direct (Private Treaty)	324,270	28.3	267,328	26.1	300,502	28.7	319,874	30.2	258,109	26.9

Source: Ontario Cattlemen's Association.

APPENDIX F
CANADIAN TAX REFORM

APPENDIX F

CANADIAN TAX REFORM

National Sales Tax Reform Deferred Until At Least 1987

The White Paper proposed replacing the narrowly based 12 percent National Sales Tax, with a broadly based refundable consumption tax. Under the proposal:

- all goods and services would be taxed;
- taxes paid on production inputs and processes would be refunded;
- taxes paid on goods and services exported would be refunded;
- the tax rate would be lower than at present and it would be revenue neutral or raise the same amount of money for the government as the tax it replaced;
- increased credits would be provided for low-income earners.

The Sales Tax Proposal, in spite of several offsetting features, was controversial and perceived negatively by many Canadians. The government decided to make a number of technical changes to the existing National Sales Tax and defer its consumption tax reform agenda until at least 1989.

The present National Sales Tax does not apply to most agricultural products but there are some inputs bought by farmers which carry the tax, i.e. auto's, building supplies, tools, household appliances and furniture.

Canadian Tax Reform

The international trend in taxation has been a reduction in rates accompanied by fewer exemptions. Following tax reform in the United States in 1986, Canada initiated a similar process in order to avoid serious tax revenue erosion.

The White Paper on Taxation, tabled by the Minister of Finance on June 18, 1987, provided a detailed outline of changes proposed for income and sales tax reform in Canada. The basic principles behind the proposals were:

- international competitiveness;
- fairness/equity;
- too many variations between individuals and firms;
- too many tax decisions rather than business decisions.

The implications of the Canadian tax reform on the beef industry could be as follows:

1. Producers relying on loopholes or using purchased inventory to lower taxable incomes could experience higher taxes.
2. Fewer tax brackets could reduce the incentives to artificially deflate incomes.
3. The livestock inventory provision will likely be available to average incomes.

Income Tax Changes

Specific changes to the Income Tax Act, following extensive discussions and analysis of the White Paper on Taxation, are contained in legislation which was still in the parliamentary process in August 1988. The major changes can be classified as follows:

- three tax rates down from 10;
- lower rates, i.e. up to $27,500 (17%); 27,500-55,000 (26%); 55,000 plus (29%);
- fewer exemptions;
- credits instead of exemptions;
- a shift from personal to corporate tax revenue;
- loophole users to pay more.

Farm Tax Changes

The key farm tax changes are as follows:

- The Flexible livestock inventory method will be extended to all farm products. The value of inventories can be added to income to allow a farmer to take advantage of credits and deductions which would otherwise be lost, i.e. RSP. Any value added in one year must be deducted from income in the next year.

- Unused purchased inventory cannot be employed to create or increase a loss. There is a seven-year transition period for this new requirement called the mandatory inventory adjustment. In the first year (1989), up to $15,000 of purchased inventory can be included in a loss calculation, declining in $2,500 increments to zero in 1995.

- For purchased animals, inventory values are the lower of cost or market except for horses which may be depreciated by 30 percent on a "specific animal" basis. Purebred registered bovine animals may also be regarded as "specific animals" but horses must be. This change is designed to ease the administrative concerns over what could be an excessive writeoff of racehorses.

- Tile Drainage Expenses, which now may only be claimed in the year when the expense occurred, may be spread over more than one year. Other tile drainage materials and installation expenses are also eligible. This change is a technical clarification.

- Farm Losses May Be Offset against other income up to $2,500 and one half of the next $12,500 starting in 1989. Previously, the offset had been restricted to $2,500 plus half of the next $5,000 of farm losses.

. Quota Gains Now Part of $500,000 Farm Capital Gains Exemption. This change was announced several weeks ago in response to representation by several supply management board members.

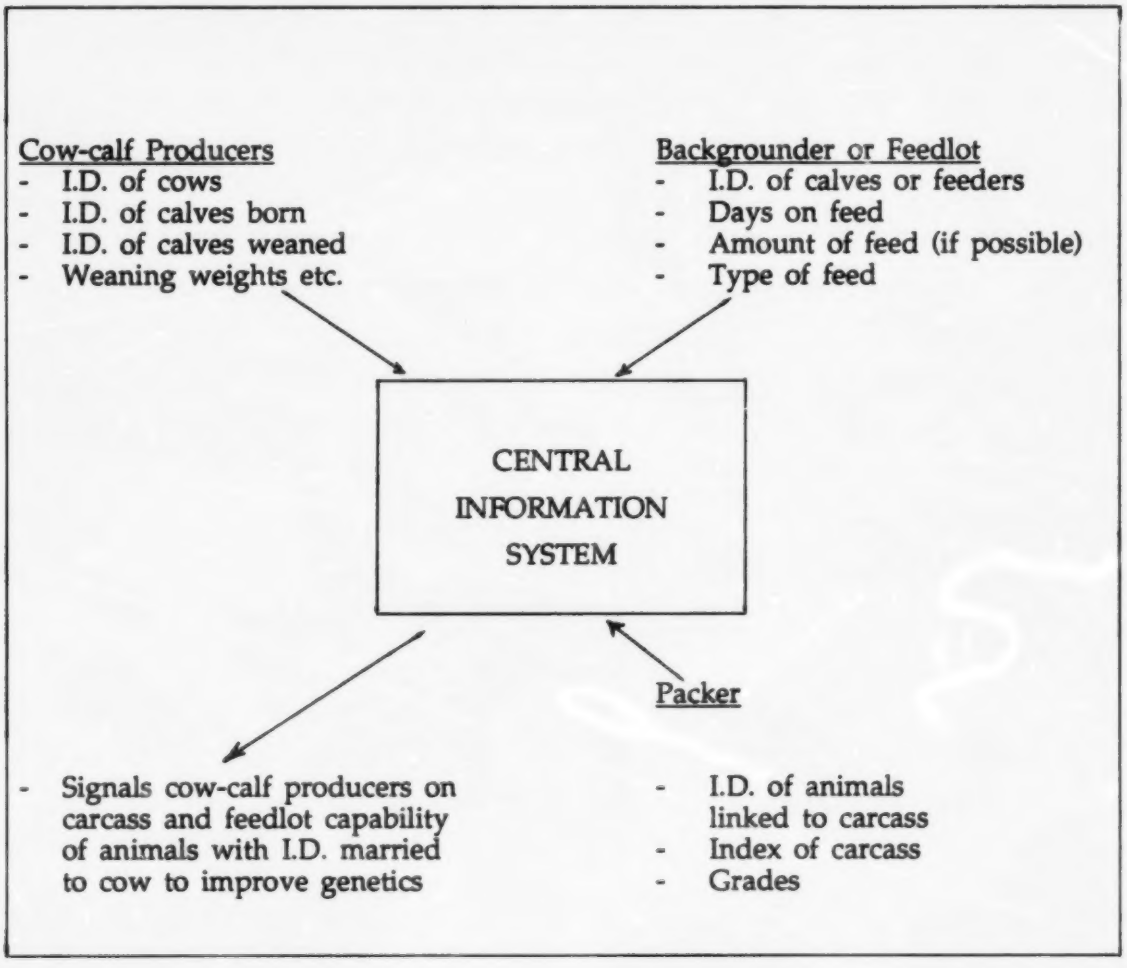
. Five-Year Block and Forward Averaging has been eliminated.

. Home Office Deductions Limited to space used exclusively and regularly to earn business income instead of 25 percent of total household expenses.

. Auto Expenses limited to variable business costs with fixed costs restricted by formula instead of two thirds of total costs.

APPENDIX G

CENTRAL INFORMATION SYSTEM


Cow-calf Producers
- I.D. of cows
- I.D. of calves born
- I.D. of calves weaned
- Weaning weights etc.
Backgrounder or Feedlot
- I.D. of calves or feeders
- Days on feed
- Amount of feed (if possible)
- Type of feed
CENTRAL INFORMATION SYSTEM
Packer
- Signals cow-calf producers on carcass and feedlot capability of animals with I.D. married to cow to improve genetics
- I.D. of animals linked to carcass
- Index of carcass
- Grades

The central information system should provide producers with an index rating of their cattle in comparison to an industry rating. The purpose of the index is to indicate that productive individual performance as compared with an industry average.

APPENDIX H

'NATURAL' BEEF - CANADIAN CONSUMER'S PERSPECTIVE

'NATURAL' BEEF - THE CANADIAN CONSUMER'S PERSPECTIVE

A summary of the research conducted by
Actionable Market Research for the
Ontario Ministry of Agriculture & Food - October 1987

'Natural' Beef - What does the term really mean to today's consumer? The product has been marketed for some time now by the large retailer, Loblaws, and other smaller companies; however, there has been no extensive research to assess consumer interest in 'natural' beef. Thus, an important part of the national beef attitudinal study funded from the OMAF Red Meat Plan was assessment of consumer interest in 'natural' beef. The study was conducted in the major cities of Vancouver, Calgary, Toronto, Montreal and the smaller cities of Sherbrooke and Barrie. In total, there were 9 focus groups and 800 mall interviews.

Concern About Beef Safety

In the problem section of the study, respondents were asked to sort through and select cards that illustrated problems that they encountered when buying or cooking beef. In total, individuals reviewed and commented on 136 problems associated with buying, preparing and serving of beef, all of which had been previously identified in focus groups. Production concerns that presented very to quite serious safety problems to consumers when purchasing beef included:

	% reporting very to quite serious problem
They feed the cattle chemicals	63%
They dye the meat to make it look red	56%
They feed the cattle hormones	55%
They feed the cattle steroids	53%
They feed the cattle antibiotics	51%
They force feed/rush the beef too much	50%
We don't know enough about how cattle are raised	48%
I don't have much faith in the government inspectors who inspect beef	35%

Consumer Interest in 'Natural' Product

Meaning of 'Natural'

Some 30% of respondents in the OMAF study claimed awareness of the term 'natural'. Awareness was highest among English speaking respondents. 54% of Barrie respondents reported awareness of the term 'natural' while only 15% in all of Quebec were aware of the term.

When probed even further, over 97% of respondents could actually give an example of what the term 'natural' meant to them. Those claiming awareness of the term 'natural' said that 'natural' meant:

	% stating what the term 'natural' meant
Beef without chemicals	30%
Beef without additives	21%
Animals not fed hormones/steroids/growth stimulants	19%
Pasture/range fed cattle	19%
Beef without preservatives	12%
Cattle that have not been force fed	12%
Cattle fed naturally, raised on 'natural' food	11%

Perception of Current Product

Over one-half of respondents (54%) said that the beef they are buying today is not 'natural'. Generally, Meat Lovers reported that the beef they are currently buying is 'natural'. Those from the Health Driven and Carefree Cook groups were more apt to feel that the beef they are buying today contains chemicals. The reasons given for beef not being 'natural' were that the respondents perceived the cattle had not been provided a 'natural' diet (free of additives, preservatives and chemicals) and had not been allowed to mature naturally (without growth stimulants and force feeding).

Interest in 'Natural' Product

77% of respondents said they were very to quite interested in buying 'natural' beef. While interest was strong in all the centres measured, it was lowest in Quebec. Health Driven and Carefree Cooks showed more interest in buying 'natural' beef than did the Convenience Oriented and Meat Lovers groups.

Those respondents expressing interest in 'natural' product said that it was because:

	% claiming they would be interested in buying 'natural' because:
There's no chemicals	45%
There's no additives	37%
Concern about healthfulness	37%
It's all 'natural'	35%
There's no preservatives	24%
Fed on pesticide free grain/'natural' pasture	16%
There's no hormones	15%
There's no antibiotics	14%

Meat Lovers expressed the least concern about the healthfulness of the beef they were presently buying while the Health Driven group expressed interest most often in 'natural' beef because they perceived the product contained no chemicals.

Generally, cost concern was the main reason (56%) given for non-interest in 'natural' beef followed by the fact that they don't know enough about the product (27%).

Of those interested in buying 'natural' product, 54% said they would pay a 1-10% premium with francophones and independent butcher store shoppers showing a greater reluctance to pay more than a 5% premium.

Consumer Impressions of "Confidence Statements"

To assess consumer reactions to statements that would or would not provide confidence when purchasing beef, respondents were presented with four statements. Reactions to the four statements were:

	% of respondents indicating confidence from statements
Government inspected	49%
No colouring or artificial ingredients added	35%
Certified safe	12%
Residue free	4%

Conclusions and Recommendations

In conclusion, the 'natural' portion of the OMAF study definitely showed that consumers are concerned about the safety of the beef supply. The number one concern that consumers have pertains to the perceived use of "chemicals" in production. It is not surprising that the term "chemicals" was the number one concern since consumers do not necessarily think of individual products such as pesticides, growth enhancers and antibiotics, rather, they lump all these products under the one generic term- "chemicals".

Over three-quarters of respondents in the survey said they were very to quite interested in purchasing 'natural' beef. Most were unwilling to pay more than a 10-15% premium and the average premium charged at present for 'natural' product is over 30%.

The industry must question what the long term consumer reaction to 'natural' beef will be when it sits side-by-side with regular product in the retail shelf. In the focus groups, some respondents said that 'natural' beef confirmed their worst fears about regular product and offered a solution. Still others said that 'natural' product created fears about beef safety in

general. These fears have the ability to manifest still further problems in the long term for the industry. These problems include: consumers switching to alternative protein sources that they perceive to be safe, the compromise of government safety assurance programs and modern production practices being jeopardized.

To prevent these problems from occurring, the industry needs to embark on an education program that assures consumers that beef is a safe and wholesome product. Through efforts of the whole industry, consumers must be informed of 1) the government inspection program that was designed to provide neutral third party protection to the consumer from health hazards and 2) modern farming practices that provide for the welfare of beef cattle, while providing consumers with an economical source of food. Enhancement of the meat inspection program must also be a priority since many consumers lack faith in the government inspection program. Retailers will be able to substantiate the education programs by labelling beef with confidence statements such as, government inspected and no colour or artificial ingredients added.

In the meantime, 'natural' product will continue to be sold to consumers with claims that create the perception that the product is better than regular product. Current meat inspection standards are equally applicable to both products. Thus, to counterbalance the misleading perception that 'natural' product is better, the beef industry has sought co-operation from Consumer & Corporate Affairs in:

1) requiring complete verification of negative claims for 'natural'/organic type products in accordance with that required by Agriculture Canada's Food Inspection Branch.

2) disallowing claims for substances that do not normally exist in the product, i.e. colouring, preservatives and additives.

3) disallowing claims of superiority for 'natural'/organic products over regular government inspected product and disallowing negative claims for antibiotics and hormones since all regular product meets government inspection standards.

Lastly, the beef industry has been instrumental in forming the Canadian Wholesome Animal Products Council. The Council was established to serve as an umbrella organization providing support to its members in assuring producers and the public of the wholesomeness of meat and eggs. Members of the Council include: representatives of beef, pork, sheep, turkey and egg producers as well as the Canadian Veterinary Medical Association, Canadian Animal Health Institute, Canadian Meat Council, Canadian Feed Industry Association and Agriculture Canada.